

# ***THE* MAGAZINE OF WALL STREET**

## **An Investment and Financial Digest**

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### **American Business and the Great War**

**An Interpretation of Recent Developments—Situation Not Unprecedented—  
Foundation for Prosperity**

By PAUL CLAY

[NOTE—The series of articles of which this is the first will portray in a striking manner the historical operation of economic forces set in motion by the war and will make a direct application of these principles to present conditions.—THE EDITORS.]

#### *Article I.*

**E**VER since the war got well started, optimism has been the keynote of THE MAGAZINE OF WALL STREET; and in spite of many eminent opinions to the contrary this optimism has every promise of being sustained by events. Had money remained easy in this country during the first month or two of war, and had production gone on as usual, the situation would now be wholly different. In such a case we should be obliged to look forward to banking troubles, and to a keen business depression. These troubles, on the contrary, came with a rush at the very commencement of the hostilities, and they are now becoming things of the past.

Furthermore, the adherents of optimism are sustained not only by past history, but also by economic laws or business principles. Among these laws or principles, some of the most important to remember just now are:

First, that a great war always produces a sharp contraction of general business, because it so disturbs the inter-

national flow of both commerce and money. Second, that this contraction immediately tightens up the money market because there is such a rush on the part of the citizens of the hostile countries to recall their loans and collect moneys owing them, and also because even in neutral countries the supply of loanable funds is suddenly either cut off or else drastically reduced. Third, that this tightening of the money market thus brings about a forced payment of debts, accompanied naturally by heavy failures on the part of those who are unable to pay.

Fourth, that the liquidation of debts leads to wholesale discharges of employees, widespread unemployment, and enforced economy. Fifth, that the unemployment, plus the economy, inevitably causes reduction in the average cost of living for the whole nation amounting to 20 or 30 per cent. Sixth, that the reduced cost of living, plus the repayment of debts, surely produces an accumulation of capital in the money centers. Seventh, that this accumulation of capital slowly but with positive certainty

results in a general boom in business.

These business principles apply to any age or country. They are not to be thwarted by the substitution of steam for sailing vessels, or by the use of aeroplanes or wireless telegraphy, or even by 42 centimeter guns. Human nature works with different tools, but it always remains human. The lack of modern machinery merely prevented events a century ago from moving as fast as they do now, but nothing could prevent them from moving according to the same business principles.

If we look at these principles in detail it is readily observable that they are even more certain to operate now than a century ago. As to principles 1, 2, 3 and 4, as just enumerated, discussion is useless since in the present war business has already responded to these laws. Regarding 5, the unemployment and economizing is more certain now than a century ago to greatly reduce the cost of living because at the present time the typical family spends a larger percentage of its total income for non-necessities. In 1796 the typical laborer in England spent about 75 per cent. of his total income for food and rent, and in 1910 the typical laborer in Massachusetts spent for the same purposes only 42 per cent. of his total income.

As to 6, the reduced cost of living and repayment of debts is more certain now than one hundred years ago to result in accumulation of capital, because the business world has meanwhile been so schooled in banking and business management that capitalists are now able to collect a much higher percentage of the amounts due them. In the money squeeze last fall, for example, there were but very few bank failures either here or in Europe, whereas under similar conditions in 1793 one-seventh of all the country banks in the United Kingdom failed. As to principle 7, this accumulation of capital is more positive to ultimately result in general prosperity because capital is now much more fluid than it was then, can travel by rail or telegraph, and can be secured to the capitalist by great varieties of collateral and of legal instruments which were then unknown. Hence capital can now flow into the arteries of trade with more

freedom and thereby give a more direct stimulus.

There is, then, no reason to doubt the potency of these business principles. Our fathers would have called them economic *laws* in order to convey a conception of the impossibility of getting away from them. However, those who doubt such reasoning from business principles or laws have only to look back in order to see these thoroughly tested by experience. The existing situation is by no means unprecedented. To be sure, the world is bigger than it was in Napoleon's time, but mere bigness does not mean that a disaster hurts any more. The business world today is not in fact injured any more, or even as much, as was the business world of 1793 or 1797. A mouse is a lot smaller than a lion, but it is equally fatal to cut its head off. This test of business principles is not a matter of size, but rather of degree of injury; and the degree of injury suffered in the Napoleonic wars was even greater than at present. Yet these business principles held.

#### THE NAPOLEONIC WARS.

Between 1793 and 1815 about 85 per cent. of the civilized world was engaged in war as compared with less than 70 per cent. at the present time. Since the British trade and the London stock market then acted in a general way precisely as our own are now acting and likely to continue doing, it is to the point to take particular notice of the fact that the disaster to Great Britain was then greater than is the present disaster to the United States—very much greater. Probably it was greater than the present injury to Great Britain itself.

The cost of the wars from 1793 to 1815 to Great Britain alone was about \$5,353,150,000—a perfectly enormous sum for that time. The American Civil War cost the North only about \$3,158,600,000 and the South \$1,500,000,000. The Franco-German war cost both sides approximately \$1,535,760,000 for the war itself; and including the huge indemnity it cost France alone \$2,024,165,700. The total cost of the Napoleonic wars to all nations engaged was probably not less than \$12,500,000,000—which amount is more than double the amount of the war

loans which have been floated by European governments since the present conflict began.

These figures alone are sufficient to show the extent of the disaster and confirm our faith in the business principles under examination. To further bring out these points let us notice how insignificant was the wealth and population of some of the nations engaged at that time.

Great Britain even in 1801 had a population of only 10,942,600, France 27,720,000 and Russia 38,140,000. At present the population of Great Britain is about 46,000,000, that of France 40,000,000 and that of Russia 165,000,000. The United States when the Civil War began had a population of 31,443,300. The people of Europe were not then numerous enough to bear such an enormous war expense, and as regards wealth they were still less capable. Thus the evidence that the disaster was at least as great as any on record is redoubled.

When these wars began in 1793 the yearly income of the entire people of Great Britain was approximately \$756,200,000; and in 1815, the year when the wars ended, this income, largely because of the growth in population, had increased to about \$1,464,300,000. Quite in contrast with these moderate figures, the income of the French nation in 1870 was about \$4,374,000,000, and that of the United States at the time of the Civil war is estimated at \$2,511,200,000 per annum. Even up to the present time, therefore, the Napoleonic conflict was the most costly ever fought and the British people then spent a larger proportion of total earnings for war than any other great nation has ever yet done even up to the present moment.

Of the total above outlay by Great Britain, 40 per cent. or \$2,141,260,000 was spent during the last four years of the war. The income of the British people during those four years was approximately \$5,570,400,000 in the aggregate; and therefore the war expense was equal to 38.4 per cent. of the aggregate income. The United States in the Civil War devoted only about 31.5 per cent. of the total income of the people to the conflict; and France spread out the expense of her conflict with Germany over

three years so that the average outlay was equivalent to only 15 per cent. of her annual yearly income.

Nor does the burden of the Napoleonic conflict diminish when one looks at armies. Not one whit do we care about the dead history of the past, but what we do care about is the overtowering fact that business principles which held firm during the unrivalled Napoleonic disaster are bound to hold now. Great Britain in 1801 had in her army and navy 470,598 men and in 1811, 640,500. France in 1804 had 560,000 men under arms. But it takes percentages to tell the story.

Great Britain even before her forces reached their maximum had under arms a number of men equal to 5.1 per cent. of her total population including men, women and children. France in 1813 had 6 per cent. of her population on the battlefield. Yet in 1870 the military forces of France were equivalent to but 2 per cent. of the total population, and those of Germany 2.4 per cent. Austria in her fatal struggle of 1866 put under arms only 1.6 per cent.; and Russia in the Crimean War but 1.3 per cent. of her population. In the Civil War the United States, including both North and South, put 8.4 per cent. of total population on the battlefield, but not at any one time. Enlistments in the northern armies totalled 2,750,000 men, but the greatest force which ever did active duty never exceeded 1,500,000. In brief, the armies of the Napoleonic wars were the largest, prior to 1914, ever put on the battlefield, and considering the absurd exaggeration as to the size of the present armies it remains to be seen whether these will prove as large in proportion to the size of the nations engaged as were those of a century ago.

#### A REMARKABLE PARALLEL.

But in spite of the hugeness of the disaster the economic principles upon which we now base our confidence that a boom in business will soon materialize held true. Events moved more slowly then, but they moved in parallel lines. Never did the civilized world pass through two experiences which were more alike than the beginnings of the Napoleonic conflict and the present war.

In both, the first thing that happened was the sharp contraction of trade accompanied by a money panic; but of course one must bear in mind that it then took years for events to progress no further than they now go forward in months. The beginning of the Napoleonic wars may properly be defined as the years 1793 to 1797 inclusive, whereas the beginning of the present conflict consisted of the months of August to November.

Rates of interest for money were then much less flexible than they are now, and therefore moved more slowly and within a narrower range. Yet the parallel is essentially perfect. To begin with, the sharp contraction of trade was marked by a jump in interest rates from  $3\frac{1}{2}$  per cent. in 1792 to  $5\frac{1}{2}$  in 1793, and to 7 per cent. in 1797; and by a corresponding rise in New York from an average of  $3\frac{1}{2}$  per cent. last July to 7 per cent. in September. Just as commercial failures increased last year from \$20,000,000 in May to \$38,700,000 in December, so bank failures increased during the early years of the Napoleonic wars. Out of 350 country banks in the United Kingdom in 1793, 300 stopped payment and 50 failed entirely. So extensive were the failures that in spite of the new banks which sprung up from time to time there were in 1797 only 280 banks left.

The trade contraction was shown in many other ways in both cases. In both, there was the same violent decline in the world's foreign commerce, and the same disturbance in particular articles of merchandise. Our cotton exports slumped the past year, and likewise in 1793 Great Britain imported only 19,040,929 pounds of cotton from all sources, as compared with 34,907,497 in 1792, and 32,576,023 pounds in 1789. In both instances the disturbance to foreign and domestic trade threw immense numbers out of employment and caused great suffering among the poor. In 1790 just two years before the great wars began the amount collected for the support of the poor in Great Britain was 2,567,000 pounds sterling; but following the war panics of 1793 and 1797 this rapidly rose so that in 1800 it was 3,861,000. In 1810 it was 5,407,000 and

in 1812 it was 6,680,000 pounds sterling.

An accidental parallel which is without significance is the fact that in 1796, the year before the war panic of that time, just as in 1913, the year before this war panic, there was a crop failure. That is, in the earlier case the failure was in Great Britain, and in the later, in the United States. Wheat prices in London from the low of 1794 to the high of 1796 just about doubled. But, getting back to essentials, the trade contraction, unemployment, forced economy and repayment of debts resulted then in a large accumulation of capital after the panics of 1793 and 1797; and the same factors are now causing a similar accumulation of capital. Merchants and business men, and even laborers are paying their debts, and the moneys paid eventually find their way into the hands of capitalists, large or small. The accumulation is not painted in red letters; but when the big Pennsylvania bond issue sold like a bargain the first week of February, and sold on a 4.45 basis, it was demonstration enough that the present accumulation of capital in the United States is very large. The point is significant because it is this capital searching for a means of investment that stimulates trade in spite of war.

#### WHEN ACCUMULATION BEGAN.

In both cases the accumulation of funds took place after security prices had dropped to their lowest point. The low point a century ago was the summer of 1797, while last year it was sometime in November. From March, 1792, to June, 1797, British consols which all the time paid 3 per cent. dropped from 97 to 47½. Likewise the Bank of England stock which continuously paid 7 per cent., fell from 219 in 1792 to 161 in 1793, and 115 in 1797.

After 1797 the accumulation of capital was demonstrated in many ways. The best demonstration of such a movement any time is a big decline in interest rates; and these declined in London from a high of about 7 per cent. and an average of  $6\frac{1}{2}$  per cent. in 1797 to an average of  $4\frac{3}{4}$  in 1799, and  $4\frac{1}{2}$  in 1802. Then, too, cash began to pile up in the banks. Even in face of huge gold exports from Great Britain made in payment of war

expenses, the bullion in the Bank of England increased from less than 2,000,000 pounds early in 1797 to more than 7,000,000 pounds in 1799. The private securities held by the bank—a fairly good measure of outstanding loans—decreased from 9,495,946 pounds sterling in August, 1797, to 7,477,485 two years later, such had been the general liquidation of loans.

Nor were these the only evidences of an accumulation of capital. Security prices rose, and their yields correspondingly diminished. The average yield of the Bank of England stock, based on its market price, fell from 5.47 per cent. to 4.25 in a couple of years, and the yield of British consols likewise declined from an average of 5.79 in 1797 to 4.71 in 1800. The accumulation of capital sought an outlet in corporate enterprises the same as it does in modern times; and in consequence the number of country banks increased from 280 in 1797 to 702 in 1809, the figures of the intervening years not being available.

As capital accumulates and seeks an outlet in business enterprises, the wheels of industry begin to move, labor is re-employed, and per capita consumption of goods increases. Hence it was that the British consumption of cotton which, during the panic times early in the war, had fallen below 20,000,000 pounds, grew to 42,500,000 pounds in 1799, and 56,600,000 in 1802. But perhaps the surest proof of all of an accumulation of capital seeking employment is an increase in wages. Hence it is most significant that between 1797 and 1805 British wages showed a big rise out of all proportion to any depreciation in currency.

Between these dates the daily pay, for examples, of masons increased from 69 cents to \$1.22, and that of plumbers from 78 cents to \$1.09.

The accumulation of capital was unmistakable, and was followed naturally by a general boom in business of which it was one of the chief causes. Step by step the parallel between the first stages of the Napoleonic wars and the first stages of the present conflict has been traced, not from any interest in dead bones, but rather because that parallel is prophetic. No one expects history to repeat itself parrot fashion; for such things never occur. It is not incidents or particulars which repeat, but rather causes and effects. It would be the height of absurdity to suppose that because Napoleon was beaten at Waterloo on June 18, that the Kaiser will therefore suffer a crushing defeat on the same date; but it is entirely logical to reason that because an accumulation of capital seeking investment, plus a great lot of war orders for supplies, produced a boom in business then, that the same factors will do so again.

Indeed, the business principles by which trade developments must be interpreted, and upon which one must base forecasts of the future, operated during the Napoleonic wars with complete precision and effectiveness. And since they operated then, when the world was suffering a greater disaster in proportion to its wealth and population than it is now undergoing, there appears to be no reason whatever to doubt that these same economic laws will operate now. If they do so, it spells a boom in general business, and a bull market in stocks.

*In the next article of this series by Mr. Paul Clay the action of the security markets now, and a century ago, will be compared, and the explicit reasons for expecting a rising market will be brought out.—See the next issue of the MAGAZINE OF WALL STREET.*

# MONEY, BANKING AND BUSINESS

## What Thinking Men Are Saying

### About Financial, Investment and Business Conditions

#### Farrell Sees Good Times Approaching.

**T**HE president of the U. S. Steel Corporation occupies an unexcelled position for catching the trend of trade. Mr. Farrell, moreover, has not been known as a perennial optimist. His expressions of opinion have been infrequent and have been moderate in tone. His address to the Engineers' Society of Western Pennsylvania, therefore, attracted all the more attention from the public. He said in part:

Apparently the tide has turned and each day records a marked improvement in the general situation. It seems to me that the time has come when co-operation should manifest itself among business men, to bring about conditions which will result in a larger employment of labor.

In my judgment a campaign for the constructive upbuilding of the business of our country on a scale commensurate with modern needs and opportunities should be inaugurated. Our problems are national, our opportunities are national; let us hear more of national common sense and see if we cannot get back to work. Public sentiment and governmental inclination unmistakably favor a live-and-let-live attitude toward business.

The era of intensive domestic growth in which this country has played so great a part has carried us into another era of world commerce, and it is a favorable augury of the development of foreign trade that American products are now to be found in many of the markets of the world.

Eminent authorities, both American and European, have calculated that our excess of exports over imports in 1915 may easily reach one billion dollars. The balance for the opening month of the year is at the rate of over one and a half billion per annum. The years of greatest prosperity in the United States have been when the balances were largely in our favor. The exchanges of the world today stand in our favor. We are the only nation, at the present time, in a position to assume the role of the world's banker.

A new banking and currency system has been established which will greatly facilitate

the extension of our financial ramifications abroad, as well as at home.

The elements of prosperity are at hand; the developments from day to day are favorable; conditions which have favored buyers are turning in favor of sellers. The steel trade has been called the barometer of business; there is a marked increase in orders and in operations; more men are obtaining employment and the trade movement is progressive and encouraging.



"BOTH COMPLAINING—WELL, I MUST BE ABOUT RIGHT."

—Cleveland Plain Dealer.

#### The Fire Engine All Right, Says Vanderlip.

**F**RANK A. VANDERLIP recently returned to work after two months in the West. In an interview he refers to the disposition among Western bankers to find fault with the Federal Reserve banks because they are not doing more business. "That is a mistake," he said. "A fire engine may be idle a great many days or months, but that is no reason for contending that it is useless." In regard to the outlook

for business he thought conservatism would prevail while such vast amounts of money are being expended in war:

That which impressed me most in the West was the change of attitude on the part of politicians toward business. That is due undoubtedly to the universal tendency to discontinue attacks on corporations and finance. In fact, some of the legislatures in the Western States are discussing measures for the repeal of certain stringent laws enacted at the height of the agitation against capital, but which have resulted merely in hampering the development of the country.

Business generally out West has improved considerably, although, of course, it is better in the wheat belt than it is in the lumber and other districts where the effect of the compulsory retrenchment of railroad and other construction work has been most severely felt.

Mr. Vanderlip's bank, the National City, has the following to say about "How War Expenditures Are Paid." These ideas have already been emphasized in several articles in this magazine, but are worth repeating:

A clearer view of the situation is had by dismissing the idea of raising money and thinking of the conduct of the war as a problem in the re-distribution of population. A portion of the population has been withdrawn from production for the army, and another portion is engaged in making war materials and supplies. It has been a subject of comment that there has been less distress among the people than was anticipated, but this is because they are being supported in large part by the expenditures from the war loans.

War has become the principal business. But with this diversion of productive capacity, there must be a great curtailment in the ordinary industries, and this means that the people are not consuming as usual. Construction work is at a standstill and all classes are economizing. In this way a large part of the expenses of the war are met by going without the things that the people have been accustomed to have and by a halt in the normal progress. Where there has been no destruction of property the loss will be mainly in the failure to make normal progress, and in the loss of many of the most effective workers.

It is evidently an error to include both expenditures and loss of production in the war costs, for the larger part of production is always absorbed by current consumption; or to count both expenditures and borrowings, for the latter are applied to the former. The payment of the indebtedness will involve only a transfer of capital, usually within the same country; the real loss occurred when the expenditures which the debts represent were made for an unproductive purpose. If, however, the taxation required to pay the interest and principal of the debts falls heavily upon necessities it will impair the efficiency of the population and retard its progress.

On the other hand, if the outcome of the

war should be the establishment of peace on a basis which would permit of even partial disarmament and a reduction of military and naval establishments, the saving upon these expenditures might offset the interest upon a part or all of the new debts and even provide a sinking fund for their payment. If Europe has been spending, as currently reported, some \$2,000,000,000 per year in preparations for war, and this could be reduced one-half, the saving would pay the interest on \$25,000,000,000 at four per cent.

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**"Normal Prosperity  
Ahead."—Jones.**

**S**EVERAL other business leaders have commented in an encouraging vein recently:

**Vice-president Jones of the Inland Steel Co.:** This country will experience normal prosperity for a few years irrespective of the war in Europe. The longer the war lasts the weaker Europe will become and must, of necessity, look to America for a great many supplies of all kinds, which will furnish employment for much idle capital. Our plants are now running on about 60 per cent. basis and one of them has been shut down. The iron and steel business is gaining. The increase since January 1 is 13 per cent., and since the middle of November 22 per cent.

**President Holden of the C. B. & Q. R. R.:** Business in the West is showing good improvement. There has been an abundance of snow, and when it melts it should leave the ground in perfect condition for the growing crops.

**President Earling of the C. M. & St. P. Ry.:** All the way through to the coast developments of late have been eminently satisfactory. The lumber industry is now flourishing, farm machinery is being bought on an unprecedented scale, the Western general merchandise movement is most encouraging and banking interests are in excellent condition.

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**Frank Crowell  
Not Yet Converted.**

**F**RANK CROWELL, whose book "How to Forecast Business and Investment Conditions" has been so remarkably fulfilled by the business history of the past few years, does not believe we are ready for prosperity yet. His opinion and that of Mr. Holt are quoted at this time because they do not agree with the exceedingly thorough and comprehensive study of the situation by Paul Clay, the first article of which appears in this issue. We wish to present all sides of the problem:

**Frank Crowell:** The present depression

was in my opinion overdue. The panic feature, which would otherwise have occurred at about this time, was avoided by the closing of the Stock Exchange. The Commission on Industrial Relations appointed by Congress, in its last report on the causes of the depression, gave eight reasons but did not mention the present war. The war had its influence, but only as a side issue. We have been extravagant and over-speculative and we now have to pay the penalty, war or no war.

The lowest point for stocks, I imagine, will come after the war, when the depression will

and on a paying basis, and the element of speculation will now become less important, as in the case of France and England.

**Byron W. Holt:** There are numerous reasons why we do not accept implicitly the arguments now being widely circulated that this war will—like most other great wars have been—be followed by a long period of cheap money. Not only is the present war unprecedented as to extent, size and cost, but the world's present financial and industrial condition is unprecedented. With steam and electricity and with corporations whose securities are held everywhere, the world of today is not only small but it is, industrially and financially, a unit or nation. Every country is either a creditor or debtor nation. All countries are dependent upon all other countries. Because of corporate methods of doing business credit was never before so extended as it is today. Partly because of this fact and partly because of gold depreciation and its far-reaching effects, the world's indebtedness and its fixed charges now far exceed anything previously known.

If we reason by analogy we must be sure that all important conditions are alike. With very dissimilar credit and financial conditions it is unsafe to conclude that because previous wars were followed by long periods of cheap money the present war will be so followed. The borrowing demand for capital may not, this time, fall off more than will the loanable supply of capital. We consider it unsafe to purchase high-grade securities now because such securities have advanced after previous wars.

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#### Many Investment Houses Bullish.

THE above gospel, however, gets very little hearing now among brokers and bond houses. Wall Street is feeling more courage than for a long time heretofore. Part of this is doubtless reaction from excessive gloom, but another part is based on reasoning which appears to the reasoners to be sound and conclusive:

**Rensdorf, Lyon & Co.:** War's aftermath presents no paradox so surprising as the inevitable decline in interest rates and the excess in the supply of money over demand.

The explanation for this phenomenon is found in the inexorable operation of the law of supply and demand. The decline in borrowing power overcomes all other factors.

The demand for capital by manufacturer and merchant is curtailed by the reduced purchasing power resulting from war, and interest rates fall.

The supply of money increases miraculously. Food supplies are conserved to an unbelievable extent. Frugality becomes a habit. During our Civil War the savings bank deposits in the Northern States almost doubled,



WHY QUARTERLY REPORTS ARE DEMANDED.

Asking for News and Getting Ancient History.

—Odd Lot Review.

be very severe. Realty is dead for at least five years to come in New York and for ten and twelve out in the Middle West. Business will be very poor for four years yet, except in those lines affected by the war. Stocks will go up in less time than that and bonds still earlier.

Farm lands will do much better than anything else for two reasons: First, we shall have to go back to the land, the primal source of all wealth, to recoup our expended fortunes; and second, the war in Europe is keeping up the price of farm products. We have before us several years of drastic liquidation in prices of all things not affected by the war. We shall have to practice economy and save up and eventually we shall start on a greater boom than ever before. In the meantime we will probably experience the greatest religious revival we have ever beheld, on the principle that in good times we don't need our God but as the shoe pinches we cry out to him for help.

The Reserve Bank law in the hands of speculative bankers might work untold injury, but I am inclined to think those at the head will be conservative men; if so, the panic feature will be eliminated, leaving us, however, the long years of liquidation, but this will be less drastic as our natural resources are developed

while the number of individual depositors increased over 40 per cent.

These developments have a direct bearing upon investment values.

More money is thus available throughout the world for investment.

It will be more profitable to buy approved securities with their stable return than to loan money at a declining rate.

We therefore look forward to a strong and advancing market for high grade bonds and seasoned dividend paying stocks.

**J. S. Bache & Co.:** The Pennsylvania \$49,000,000 having been subscribed for five times over and more, the awards leave 80 per cent. of the money which was ready to take these bonds, idle. It is useless for these funds to wait for another issue of this kind, because there are few roads which can furnish such a high grade bond as this, and those few presumably have no need to borrow.

Will this surplus money then remain idle? Not if all precedent in such cases is followed out. For it is the history of periods like this, of recovery from panic or hard blows, for capital, which has been waiting and floating around undecisively without confidence to decide what to buy, and doing the investment market no good, to awaken for business when being able no longer to get the very best and to look around for something not quite so good. And so it may be depended upon that the trend towards absorption of new and good attractive offerings has only just started.

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#### Redfield Tells a Startling Story.

ONE would hardly expect the administration at Washington to be "bearish" on the business situation. But Secretary Redfield, at the annual dinner of the United States Chamber of Commerce, startled his hearers by letting out a few "inside" facts:

We face the greatest opportunity commercially that ever came to an industrial state.

I wonder if some hard-headed business man thinks that hyperbole. I have had a dispatch from the prime minister of a great country abroad, so frank as hardly to be publishable in its original form, almost begging—let us say strongly urging—that America take the place in his country that Europe has laid aside.

I have another from a monarch of a European power, saying frankly that he wanted America to come into his land and take the place which others had hitherto filled. Today an able attache is at the court of that monarch, aiding his country to do what is possible to unite that nation commercially to ours.

The king has said that he will put into America a branch of the bank of his country if we will undertake to establish banks in his country, and that whatever he can do officially

to forward American commerce in his land shall be willingly and continuously done.

That is the least of it. I beg of you not to be persuaded by the daily news columns of the press into the belief that our foreign trade lies chiefly in what we may call, for lack of a better term, "war orders." That is not so. It is a complete misunderstanding of the whole situation.

Where would you go if you were a foreign merchant, let us say in Ceylon, Japan, China, Australia, or Siam, to place an order that required four months for manufacture and shipment, save to the United States? Where would you go from South Africa, from South America, from Iceland, or from New Zealand to place an order that took four months to fill, save to the United States?



RIP VAN WINKLE BEGINS TO WAKE UP.

— *Minneapolis Journal.*

#### Lets Roads Meet Canal Competition.

ANOTHER mile-stone was passed in the eternal long and short haul controversy when the Interstate Commerce Commission handed down its decision on the intermountain rate cases. This will permit the roads to meet Panama Canal competition and thus to hold their traffic from the East and Central West to the Pacific. Railway men regard the decision as important, not only because it will enable the roads to hold much of the revenue that

might have been taken away by canal competition, but also because of the favorable attitude indicated by the Commission:

The effect which canal competition has already had upon the all-rail rates, not only from the Atlantic seaboard but from points as far inland as Chicago and St. Paul, was described by the Interstate Commerce Commission as revolutionary. It was the opinion of the commission that, had the railroads been denied their request for permission to readjust rates to meet part way the lower charges via the canal, there would have been "grave reason to think that the Atlantic seaboard in the future would have supplied by water the Pacific Coast with the commodities in question, and that many industries in the neighborhood of Chicago would have either lost their Pacific Coast customers or have been compelled to migrate to near the Atlantic seaboard."

To counteract this situation, the Interstate Commerce Commission has entered an order affording further relief under the requirements of the decision in the intermountain case. By this order the roads are allowed to establish lower rates to the Pacific Coast ports without effecting corresponding reductions to intermountain points which are not affected by the water competition.

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**Short Term Notes  
Must Be Refunded.**

**H. PARKER WILLIS**, Secretary of the Federal Reserve Board, told the Railroad Men's Improvement Society recently that it was imperative that the great quantity of short term notes outstanding should be turned into long term bonds. What Dr. Willis has to say is always well worth reading:

The most fundamental fact in the present

railway situation is, I believe, the demand for new capital. For reasons known to all the capital invested in new transportation enterprises in the past few years has been insufficient. The mileage of the country increased only from 207,977 miles in 1903 to 249,802 miles in 1913. The railroads, considering their difficulties, have done well, but certainly the ten years just past have not been encouraging to railroads, nor to the railroad investor.

Now, suddenly, a new factor has been added. War in Europe has destroyed enormous amounts of fixed and circulating capital. When the war ends, however, it may turn out that there will be a great demand for capital to be used in upbuilding industries. The natural effect of this shortage of capital will be an increase in the rate of interest. This demand for capital will be a demand for long-term investment funds, not for money.

While this is proceeding, other enterprises throughout the world will have to bear their share of the burden. Thus the railways, which are among the greatest borrowers in every country, must find themselves hampered by anything which stands in the way of their obtaining the resources they require. They are confronted by a peculiar problem because of the practice, in recent years, of financing their necessities in no inconsiderable degree on a short-term basis.

While the act will be of enormous advantage to the business world, it is not well for any thinker on the subject to mislead himself into the belief that such legislation will do the impossible. The Federal Reserve Act is not a measure which has to do with long-term investment of capital, and those who look to it as a direct means of relief for manufacturing enterprises, like those who look to it as a means of providing agricultural resources, must inevitably be disappointed.

Above all things else, it is imperative to turn the funding of railway obligations into long-term securities and to place those securities in the hands of the public.

**THE MAGAZINE OF WALL STREET** is the only financial publication, so far as we know, which makes definite predictions on the market in general, on individual securities and on business conditions. Any number of publications give histories of what has happened during the day, week or year, but few, if any, look into the future. Profits are made by cultivating foresight. This is one of the reasons why you should read **THE MAGAZINE OF WALL STREET** regularly.

## Business Clearly on the Up Grade

### Commercial Statistics Interpreted

THE statistics given below (the same as heretofore shown under the heading "Essential Statistics Boiled Down") indicate quite clearly that the upward swing in business conditions has begun. The sharp rise in commodity prices is perhaps the most significant figure. The actual level of prices is not so high as might be imagined from newspaper comments. The present Bradstreet figure of 9.66 is but little above the ante-war high of 9.55 in December, 1912, and 3,003 for the English index is not so far above the 2791 of April, 1912. The very high price of wheat has less influence than might be supposed on the Bradstreet average, as this average is merely the sum of the prices of about 100 commodities and wheat counts no heavier than any other commodity.

The next most important figure for the business man is the rate for commercial paper, now below four per cent., as predicted in this column. That is, the business man can sell his goods at higher prices and at the same time can borrow very cheaply. Under these conditions he will inevitably broaden his operations—barring war between the U. S. and Germany, or some similar cataclysm.

It is notable that the loans of New York banks (excluding the trust companies) are now falling below deposits. While this

figure cannot be interpreted as accurately as heretofore, owing to the change in banking methods, the general movement of these two items is unquestionably to be interpreted as bullish on both business and investments. The big drop in the per cent. of cash to deposits, compared with previous years, is of course due to the new law.

Bank clearings are the largest since the war began, but are nevertheless the smallest for this month since 1908. They have shown a fairly regular increase since last August and their general movement during 1915 is pretty sure to be in the direction of expansion. Our big excess of exports has been widely commented on and is certainly a very important factor of strength.

Building operations are nearly equal to January, 1914, but otherwise are the smallest January since 1908. They will, of course, increase with the approach of spring. The big liabilities of failures mark the January clean-up of the disastrous year 1914. They will be much smaller in coming months, but it is likely that it may take some time yet to weed out the weak concerns and bring failures down to a normal basis.

Pig iron will not go much lower in price. Production is already showing a slight increase. The steel industry is now operating at about 55 per cent. capacity, after having been below 50 per cent.

|                 | Average<br>Money Rate<br>Prime Com-<br>mercial Paper<br>New York. | Average<br>Money<br>Rate<br>European<br>Banks. | Per cent.<br>Cash to<br>Deposits, New<br>York Clearing-<br>house Banks.* | Per cent.<br>Loans to<br>Deposits, New<br>York Clearing-<br>house Banks.* | Bradst's In-<br>dex of Com-<br>modity Pcs. | English In-<br>dex of Com-<br>modity Pcs. |
|-----------------|-------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------|-------------------------------------------|
| Feb., 1915..... | 3½                                                                | 5                                              | 19.2                                                                     | 97.4                                                                      | 9.66                                       | 3,003                                     |
| Jan., 1915..... | 4                                                                 | 5                                              | 18.7                                                                     | 99.7                                                                      | 9.14                                       | 2,800                                     |
| Dec., 1914..... | 4½                                                                | 5½                                             | 19.2                                                                     | 103.1                                                                     | 9.03                                       | 2,760                                     |
| Feb., 1914..... | 4                                                                 | 3½                                             | 27.1                                                                     | 104.1                                                                     | 8.86                                       | 2,618                                     |
| " 1913.....     | 5                                                                 | 5                                              | 25.8                                                                     | 101.0                                                                     | 9.46                                       | 2,732                                     |
| " 1912.....     | 3½                                                                | 4                                              | 27.5                                                                     | 104.8                                                                     | 8.95                                       | 2,613                                     |
| " 1911.....     | 4                                                                 | 3½                                             | 27.8                                                                     | 102.9                                                                     | 8.76                                       | 2,523                                     |

\*Affected by new Federal Reserve System.

|                 | Total<br>Bank<br>Clearings<br>of U. S.<br>(Millions) | Bank Clearings<br>of U. S.<br>Excluding<br>N. Y. City<br>(Millions) | Balance of Gold<br>Movements<br>—Imports or<br>Exports<br>(Thousands) | Balance of<br>Trade<br>—Imports or<br>Exports<br>(Thousands) | Building<br>Operations,<br>Twenty<br>Cities<br>(Thousands) | Business<br>Failures,<br>Total<br>Liabilities<br>(Thousands) |
|-----------------|------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------|
| Jan., 1915..... | \$13,478                                             | \$6,190                                                             | .....                                                                 | Ex. \$162,000                                                | \$25,636                                                   | \$50,001                                                     |
| Dec., 1914..... | 12,644                                               | 6,115                                                               | Im. \$3,978                                                           | Ex. 131,863                                                  | 23,860                                                     | 34,822                                                       |
| Jan., 1914..... | 16,198                                               | 6,825                                                               | Im. 3,528                                                             | Ex. 49,323                                                   | 26,480                                                     | 37,285                                                       |
| " 1913.....     | 16,234                                               | 6,895                                                               | Ex. 11,027                                                            | Ex. 63,969                                                   | 31,403                                                     | 19,296                                                       |
| " 1912.....     | 15,096                                               | 6,260                                                               | Im. 3,226                                                             | Ex. 58,860                                                   | 27,623                                                     | 19,945                                                       |
| " 1911.....     | 14,495                                               | 5,963                                                               | Im. 8,617                                                             | Ex. 66,522                                                   | 34,472                                                     | 27,273                                                       |

|                 | Wholesale<br>Price of<br>Pig Iron. | Production<br>of Iron<br>(Tons)<br>(Thousands) | U. S. Steel<br>Co. Unfill.<br>Tonnage<br>(Thousands)† | Price of<br>Electro.<br>Copper<br>(Cents) | Crop<br>Conditions.<br>Winter<br>Wheat | Babson's.<br>Bond<br>Average |
|-----------------|------------------------------------|------------------------------------------------|-------------------------------------------------------|-------------------------------------------|----------------------------------------|------------------------------|
| Feb., 1915..... | \$12.40                            | .....                                          | .....                                                 | 14.4                                      | ....                                   | 89.5                         |
| Jan., 1915..... | 12.40                              | 1,601                                          | 4,248                                                 | 13.7                                      | ....                                   | 89.2                         |
| Dec., 1914..... | 12.50                              | 1,516                                          | 3,836                                                 | 12.9                                      | 88.3                                   | 87.0                         |
| Feb., 1914..... | 13.81                              | 1,885*                                         | 4,613*                                                | 14.5                                      | ....                                   | 94.0                         |
| " 1913.....     | 16.69                              | 2,795*                                         | 7,827*                                                | 15.0                                      | 97.2†                                  | 95.5                         |
| " 1912.....     | 13.31                              | 2,057*                                         | 5,379*                                                | 14.1                                      | 93.2†                                  | 92.5                         |
| " 1911.....     | 14.25                              | 1,759*                                         | 3,111*                                                | 12.2                                      | 86.6†                                  | 98.4                         |

\*January. †Last day of mo. ‡December.

## Bonds and Stocks

### The Market Outlook

#### Factors Beneath the Surface of Current Events

**F**URTHER gold imports seem to be a foregone conclusion. The rate of exchange has declined to the previously unheard of figure of \$4.89. Under any sort of normal conditions this rate of exchange would be impossible, for long before the decline had extended that far, heavy gold imports would restore the balance and check the downward tendency.

The nations at war may, of course, prohibit exports of gold—though it may well be doubted whether England will find it to her advantage to take so radical a position. But even in this case a certain amount of gold is pretty sure to come to us from neutral countries.

A small amount of gold was released to us from Ottawa last week and more will follow unless the Bank of England actually prohibits such a movement. And the phenomenal exchange rate now ruling will certainly draw to this country minor shipments of gold from elsewhere. If England should decide to let events take their natural course, it goes without saying that our imports of gold would be very large; but this is, perhaps, improbable.

\* \* \*

**T**HE trade balance in our favor must grow as long as the war continues. The warring nations will be forced to call upon us for more and more supplies as their own become depleted.

From an excess of imports amounting to \$19,400,000 in August, 1914, a steady improvement has been shown month by month until our excess of exports for January exceeded \$160,000,000. Leading bankers believe that our exports are still far from having reached flood tide. Some are estimating that our excess of exports for 1915 will reach three-quar-

ters of a billion by July 1. It is also to be borne in mind that very few tourists or health-seekers will spend American money in Europe during the next six months, and their expenditures under normal conditions have been estimated at about \$200,000,000.

Under such circumstances, the only thing that could prevent a very low rate of exchange, and large imports of gold, unless its movement is artificially interfered with by England, would be heavy foreign sales of our securities or heavy purchases of foreign bonds by this country. As yet neither of these factors has become large enough to have important weight. Both may grow, of course; but it is difficult to believe that they can upset such a tremendous trade balance as we are now building up.

\* \* \*

**O**UR own investment fund is being greatly increased by this favorable position of our foreign trade. This would be true even if foreigners should turn heavy sellers of our stocks. If they should sell our securities back to us, and at the same time buy our goods in large quantities, they would be practically furnishing us the money with which to buy the securities—and at low prices.

If we sell Europe wheat at \$1.50 a bushel and use the money to buy from Europe Union Pacific at 120 or St. Paul at 86, we are making two good bargains at once. The same argument applies to all sales of commodities to foreigners at war prices.

\* \* \*

**I**NCREASED cotton exports have an important bearing on this question. In four months ended November 30, 1914, our cotton exports were only about one-third the corresponding months of 1913. They are now running nearly

double last year. The price, of course, is much lower than last year's. On the other hand, all the cotton now going forward is directly creating exchange. In this particular it differs from purchases of war material paid for by New York credits, or foodstuffs sent to the Belgians.

In ordinary years, in the early fall we draw against cotton shipments to go forward during the remainder of the season. In 1914 we did not do so, because of the very grave doubt whether the cotton could go forward later. Hence the present enlarged cotton movement is having a big effect in forcing down the rate of exchange.

\* \* \*

**T**HE effect of high grain prices—and equally of other sales of our commodities at good returns—goes much further than this. An unexpected windfall has dropped into the lap of the Western farmer. What will he do with it?

So far he has done almost nothing with it, being restrained by timidity as to the general effect of the war. But the effect—or at least the mental effect—of the war is wearing off. In Central and Western cities the war news is even being relegated to the inside pages of the newspapers. Westerners are forgetting about foreign conditions and thinking about their own spring trade and crop prospects.

The continued selling of grain at high prices is heaping up cash in Western banks. Speculation is now at a standstill, but business expansion is being generally urged. Some of this money will find its way directly into investments. The rest of it will promote business activity, which in turn will react on the stock market by improving the earnings of railroad and industrial companies.

\* \* \*

**I**MPROVING bond prices reflect the growth of the American investment fund. The ready sale of the Pennsylvania bonds a few weeks ago, and the prompt underwriting of the \$100,000,000 New York Central 20-year convertibles point in the same direction.

Undoubtedly the supply of securities

will grow rapidly, in keeping with the demand. Nearly all the railroads need money badly and they will enter the security market with new issues just as soon as they find that such issues can be readily sold. But it has been the history of all such periods that a sharp contraction of business, such as occurred in the last half of 1914, is followed by an accumulation of investment capital in excess of immediate demands. This movement may be checked by the turning of the foreign investment demand entirely into war channels, but it will not, in our opinion, be entirely squelched.

\* \* \*

**R**EVIVING business has always been preceded by a reviving stock market. President Farrell, as quoted elsewhere in this issue, predicts business revival. Schwab has been predicting it emphatically for some months. It is stated that Gary, Frick and Reid hold the same opinions. Leading railroads are placing fair orders for rails and equipment.

A safer guide than opinions, however, is found in a study of current business statistics. These show a rising volume of business after an acute depression, and an extremely easy money market. It is quite true that the present volume of business is small—but the tendency is the important feature as affecting investment markets.

\* \* \*

**A**N early boom, on the other hand, does not appear to us probable, though many are venturing to predict it. Under the weight of the war, both investment and business conditions all over the world must recuperate slowly.

New financing everywhere will be restricted by the war demand for capital. But this factor has an opposite side; for if new financing is restricted, the investment demand will tend to converge more upon existing stocks and bonds of high character.

About \$750,000,000 refunding will have to be done in 1915, but this is merely a transfer of capital from one form of security into another. It will not lessen the investment fund.

## Opportunities in Listed Bonds

By F. M. VAN WICKLEN

[NOTE—Mr. Van Wicklen is associated with one of the leading New York bond houses and his conclusions may be relied upon as trustworthy.—The Editors.]

### American Telephone & Telegraph Co. Collateral Trust 4% Bonds, due 1929.

*Yield at present price, 5.15%.*

These bonds are legal investments for savings banks and trustees in Massachusetts and Connecticut. They are secured by deposit in trust of stocks of telephone companies operating in different sections of the United States, all controlled by the American Telephone & Telegraph Co. The bonds are limited in amount to 75 per cent. of the estimated value of this collateral.

The enormous earning capacity of the American Telephone & Telegraph Co. makes these bonds safe beyond question. For instance, net earnings for the past five years have averaged approximately \$37,000,000 per annum, against fixed charges, including the interest on these Collateral Trust 4's, of about \$6,300,000. These fixed charges are prior in all respects to and must be paid before any dividends are paid on the company's capital stock. These dividends at present amount to 8 per cent. on \$344,616,300 stock having a current market value of about \$415,000,000.

### Union Pacific Railroad Co. Convertible 4% Bonds, due 1927.

*Yield at present price, 5%.*

Although these bonds are not secured by a mortgage on any property, nevertheless, they are a direct obligation of the Union Pacific Railroad Co. ranking prior to dividends on its preferred and common stocks. The margin of surplus earnings over the company's fixed charges, including the interest on these bonds, is so great that they occupy a far stronger investment position than many first mortgage bonds of our standard railways. For example, during the past four years the Union Pacific has reported a surplus above all fixed charges, available for dividends, averaging over \$35,000,000 per annum. This surplus is as large as the total gross earnings of such roads as the Atlantic Coast Line, Chesapeake & Ohio, etc.

These bonds are due in 12½ years, and purchased now may easily be held by an investor until maturity, thus yielding full 5 per cent. A return to normal conditions in the security markets before that time should result in a substantial advance in these bonds above their present price around 90½.

### Chicago Great Western Railroad Co. First Mortgage 4% Bonds, due 1959.

*Yield at present prices, 5.80%.*

This company was reorganized in 1909 since which time over \$16,000,000 has been spent in bringing its physical standard up to a point where it could successfully compete with rival systems. The property is now stated to be in excellent condition and capable of the most economical management. Since its reorganization in 1909, the road has each year shown marked improvement in earning capacity and in operating efficiency.

These bonds cover as a first mortgage the entire 756 miles owned, comprising almost entirely main line road connecting Chicago with Kansas City, St. Paul and Minneapolis. They also cover extensive terminals and other property. They are followed by approximately \$90,000,000 capital stock.

For the year ended June 30, 1914, the Chicago Great Western earned a surplus over fixed charges amounting to \$1,375,930. Interest on the First Mortgage 4's, the only bonded debt of the company, amounted to \$1,033,720, so that this interest may fairly be said to have been earned more than twice over. There was, to be sure, a deduction of \$480,000 representing interest on the 4 per cent. bonds of the Mason City & Fort Dodge R. R. Co., a subsidiary, but it must be remembered that this interest is payable only if earned.

The substantial margin of earnings over the interest on these bonds, the splendid condition of the property, its entrenchment, continually growing stronger, in the territory traversed, together with its satisfactory financial

condition—no floating debt and a credit balance to profit and loss of \$3,582,000 of which 70 per cent. exists in the shape of actual cash—all these would seem to argue that the company's First Mortgage 4's around 71 were selling too low. They were brought out in 1909 at 92.

**Florida East Coast Railway Co. First Mortgage 4½% Bonds, due 1959.**

*Yield at present price, 5.05%.*

The entire \$12,000,000 authorized amount of this issue is now outstanding and additional financing will have to be accomplished with junior securities.

The actual cash spent in building this road was upwards of \$37,000,000 or over three times the amount of these bonds. They represent therefore less than one-third of its cash cost. They are a first mortgage on the entire property at the low rate of \$19,000 per mile and are followed by \$25,000,000 General Mortgage Income Bonds and by \$10,000,000 capital stock.

The road is a natural continuation without competition of the Atlantic Coast Line, the Southern and the Seaboard Air Line railways to eastern Florida. Key West, the southern terminus of the road, is only a hundred miles from Havana, Cuba, and the ferry service between these points is practically ready for operation. At Havana, the ferry will connect with the Cuba Railway lines and a heavy traffic is expected. The Panama Canal ought also to benefit this road.

Earnings of the Florida East Coast have always shown a fair margin over the interest on these bonds. For the year ended June 30, 1914, net earnings amounted to \$1,441,715 against fixed charges of only \$685,224, leaving a balance of \$756,491.

These bonds were brought out in 1909 at 102½, a 4¾ per cent. basis, or approximately 12 points above their present price.

**Pocahontas Consolidated Collieries Co. First Mortgage 5% Bonds, due 1957.**

*Yield at present prices, 5¾%.*

The coal mined from the property of this company is noted as being one of the best steaming coals obtainable. This

property is located in the Pocahontas Great Flat Top Region of Virginia and West Virginia on the Norfolk & Western Railway, comprising over 20,000 acres of coal lands held under lease, and 14 plants equipped in the most modern manner. The mines have 200 miles of steel track, 60 haulage locomotives and 3,900 coal mine cars, with electric plants aggregating 10,000 horse-power for operating same. The properties are most advantageously located for tidewater shipments.

This property is conservatively valued at upwards of \$14,000,000 compared with a present bonded debt of \$5,312,600. This issue of \$4,451,600 is secured by a first mortgage on the entire property subject on a portion to \$861,000 prior liens which are being rapidly retired by a sinking fund. In addition to the bonds outstanding \$687,400 have been cancelled by a strong sinking fund which it is calculated is ample to retire all the present outstanding bonds by maturity.

Net earnings have been very substantial over a long period of years, and since 1908 have averaged over 2½ times the company's entire fixed charges. For the year 1914, net earnings amounted to nearly four times these charges.

These bonds are followed by \$7,000,000 capital stock receiving dividends at the rate of 6 per cent. They may be obtained in as small as \$100 denominations.

**Chicago & Eastern Illinois R. R. Co. General Consolidated & First Mortgage 5% Bonds, due 1937.**

*Yield at present price, about 7%.*

Here is another bond now included in the semi-speculative group, although until recently it has always been regarded as a first class bond.

The Chicago & Eastern Illinois is in receivers' hands, and it awaiting a favorable opportunity for reorganizing. When this has been accomplished these bonds, if left undisturbed, ought to have a very substantial rise. The chances are very fair that they will not be disturbed in reorganization, and that they will regain much, if not all, of their former prestige when they sold well above par,

or over 25 points higher than their present figure.

These bonds are secured on the old portion of the system, covering as a first mortgage 464 miles of its most profitable road, including the larger part of the mileage owned by the company between Chicago and St. Louis. These bonds are followed by \$18,000,000 Refunding Mortgage 4's, and by approximately \$20,000,000 capital stock.

There is a strong indication that some of the unprofitable portions of this system, such as that covered by the Chicago & Indiana Coal 5's, will be eliminated in reorganization, thus materially reducing the bonded debt and fixed charges of the company. Earnings have always been sufficient, however, to take care of these General Consolidated 5's, and interest has been paid on them all through receivership, even during the past year which was one of the worst in the company's history from the standpoint of net earnings. Interest in the meantime has been defaulted on the Refunding 4's, and on several other issues of the company covering property which is unprofitable, and which as above mentioned will probably be eliminated in reorganization. This is additional assurance that the General Consolidated 5's should come through reorganization intact.

The receivers have been expending large sums out of earnings for additions and betterments to this property, the amount so spent in the year 1913-1914 being over \$1,000,000. This is one reason to account for its small net earnings for that year. Current net earnings as officially reported are showing great improvement, amounting for the five months ended November 30, 1914, to \$1,367,412, against \$967,142 in 1913, an increase of \$400,270, or over 40 per cent. The rate increases ought to help this road considerably.

**Chicago & Eastern Illinois R. R. Co. General Consolidated & First Mortgage  
5% Bonds, due 1937.**

*Yield at present price, about 10%.*

Here is a bond now included in the speculative group, although until recently it has always been regarded as a first-class railway bond.

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## The New New York Central

Prospect for the Stock on the New Basis—Past and Future Earnings

By WILLIAM T. CONNORS

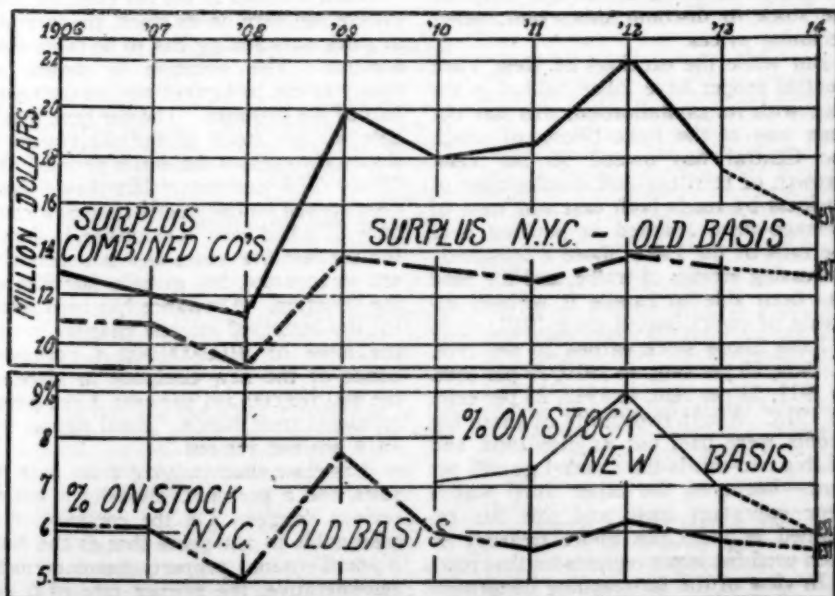
**W**ITH the recent decision of Justice Keogh against Clarence Venner *et al.*, and in favor of the company, it would appear that the various legal difficulties in the way of consolidation, including the refunding of the Lake Shore 3½ per cent. bonds, have at last been smoothed away. For more than a year the officials of the company have been struggling with the problem and success has at last crowned their efforts.

At first glance it seems absurd that there should have been at any time a doubt as to the ability of this great system to pay five per cent. dividends after a continuous dividend record, at varying rates, since 1870. The system as a whole covers the best developed and strongest business territory in the United States. In this respect it has no superior and only one equal—the Pennsylvania. It has every advantage of banking connections and expert

management. It has always handled, and so far as can be predicted always will handle, the largest share of the tremendous through business from New York and New England to the Central and Western States. The road is a sort of American institution.

Yet the old New York Central has been having its troubles since 1909. In December of that year the total of outstanding stock was \$178,632,000, and bonds \$268,415,000. Then a new stock issue raised the total of the stock to \$223,290,000. By the end of 1913 stock had become \$225,581,000, and bonds \$378,644,000, and 1914 brought still further increase in the total of outstanding bonds and notes.

During this tremendous growth of capitalization the road's surplus for dividends (see graphic—"Surplus N. Y. C., Old Basis") remained practically stationary. The same earnings for dividends had to be spread over a much



larger issue of stock, with a resulting fall in the earnings. (See "Per Cent. on Stock N. Y. C., Old Basis.")

The causes of these big expenditures of new capital are well known to all newspaper readers. The heaviest item was, of course, the new Grand Central Terminal, the greatest terminal project ever conceived, which is now nearing successful completion. The Terminal is planned to be self-supporting and a considerable part of the space occupied is already becoming remunerative; but all this takes time, and during construction and for a time thereafter heavy expenses had to be borne and a tremendous amount of capital had to be tied up in temporarily unproductive forms. And, of course, a great amount of betterment work all along the lines has had to be done to take care of increasing gross business.

The Grand Central Terminal is built for the future—not five years or ten years, but half a century—a far-sighted, clear-visioned plan for artistic and business betterment combined with unparalleled railroad facilities. Ere long it will be a source of profit to the road instead of a burden—but investors have evidently felt that it is still too early for the stock to discount this event, hence declining prices.

But while the earnings of New York Central proper have fallen behind in the race with its capitalization, this has not been true of the Lake Shore, of which the Central has owned 90 per cent. Growth of territory and development of business by roads both east and west of Chicago have resulted in pouring over the rails of the Lake Shore a constantly increasing stream of traffic, and the road has been able to handle it without increase of capitalization since 1910.

Lake Shore stock earned 26 per cent. in 1909, 28 per cent. in 1910, 29 per cent. in 1911, 33 per cent. in 1912, 25 per cent. in 1913. About two-thirds of these big profits were paid out as dividends, and of this two-thirds the Central got 90 per cent.—but even the other third was a very important item, and this has remained in the Lake Shore treasury or been used for improvements on that road.

In view of the far-reaching betterment work being done by the Central at the

eastern end of its system, which will, of course, benefit Lake Shore only second to the main eastern line itself, it was no more than fair that Lake Shore should be brought into the general system and required to contribute its share to current earnings. This has now been accomplished. Eleven roads, of which the principal are the N. Y. C. & H. R., the L. S. & M. S., the Geneva, Corning & Southern, and the Chicago, Indiana & Southern, have been merged into "The New York Central Railroad Co.," with 3,443 miles of line, nearly \$600,000,000 of funded debt, and \$249,590,000 outstanding stock.

The diagram compares the earnings of the old system with the new. The first line shows the aggregate surplus for dividends year by year of the roads which have been combined into the new system. From 1909 to 1913 this was very much greater than that for the old N. Y. C. System, shown in the second line. For 1914 the estimated difference is not so great, due principally to the sharp falling off in the earnings of Lake Shore. The new New York Central will, of course, have at its disposal for dividends the entire surplus of the combined companies.

When it comes to the per cent. the new system can earn on its stock, the increase in stock outstanding has to be taken into account. The situation is shown, as nearly as can be figured out, on the lower half of the diagram. The per cent. available for the stock of the old system is shown throughout the entire period 1906-1914. The per cent. that *would have been earned* on the stock of the new company, if it had been in existence, is shown for the last five years and is necessarily not so accurate, but gives a fair idea of the situation. Allowance has been made for the increased interest charges due to the issue of \$100,000,000 4 per cent. bonds of the new company in place of the \$90,578,000 3½ per cent. Lake Shore collateral trust bonds. Final figures for 1914 are not yet out.

It is clear that, judging from past results, the 5 per cent. dividend is not in serious danger. On the contrary, it is reasonable to anticipate that as the New York Terminal property becomes more remunerative, the former rate of 6 per cent. can in time be resumed.

## Investment Inquiries

*NOTE.—Answers as published in this magazine are selected and condensed from the very large number of inquiries received from our readers. All such letters are answered by mail in advance of publication, hence stamped and self-addressed envelopes should accompany them.*

### Frisco 5's.

A. M.—We regard St. Louis & San Francisco 5% gold bonds of 1931 as a good investment at their present price, which is around par. These bonds have not been disturbed by the receivership, and the fact that the property has gone through the unfortunate experience of the past year without any drastic decline in the price of these bonds, promises well for the future.

### St. Paul and So. Pac. Convertibles.

In your December issue, under "Opportunities in Listed Bonds," you speak of the St. Paul convertible 4½'s being secured by a general mortgage. *Poor's Manual* for 1915 in describing this issue makes no mention of a mortgage lien. Is this issue secured by a mortgage or not? Does the Southern Pacific Company pay the normal income tax on its convertible 5's?—B. S.

The St. Paul convertible 4½'s are secured by the new general and refunding mortgage of 1913. This is an open mortgage, but the amount of bonds to be issued against it is limited to three times the amount of the outstanding stock. Southern Pacific convertible 5's are free from all taxes except the Federal Income Tax. Both are excellent investments.

### Varied Holdings.

L. D.—Your stock holdings are somewhat mixed. The Atchison and Kansas City Southern we consider all right. Atchison is a standard investment stock and the road's earnings are good. Kansas City Southern is of course speculative, but in view of the good showing made by this road we think you are warranted in holding it for a long pull investment.

Distillers and Missouri Pacific are also highly speculative. Distillers has been doing better under a new management, and has perhaps some prospects of improvement. The Missouri Pacific situation is very much in doubt. Officials of the company are confident that it will pull through without a receivership, but this must depend to a great extent on future business conditions. Were business normal it would avoid a receivership. Even if it does go into the hands of a receiver we have no doubt that you could pay assessments on the stock at these prices and eventually get good profits, but this would take time.

U. S. Rubber earnings are good, and we would suggest that you hold this stock for the present.

Virginia Carolina Chemical will probably have hard sledding during the remainder of the war, but as you have bought it at low prices we are inclined to think that you will eventually get some profits.

### Atchison.

M. S.—Atchison has recently made substantial gains in both gross and net earnings, and the prospects are for continued heavy traffic, so that 9% will probably be earned on the common stock for the fiscal year current, comparing with 7½% the year previous.

### American Can—U. S. Steel.

C. W.—American Can has during the last six years reported earnings averaging 8.5% on preferred; 2.4% was earned on the common last year after charges of \$750,000 to depreciation and \$500,000 to sinking fund. This compares with 4.5% the year previous. The present dividend rate on the preferred is 7%, but 8¾% is still due in back dividends on this issue. This, however, is a big improvement upon the situation of former years, as surplus rapidly accumulated to April, 1913, when debenture bonds were issued to reimburse the company for expenses of new construction and acquisitions; at the same time 24% back dividends were paid. The treasury is still strengthening its position, but according to statements attributed to officials of the corporation, the balance of accrued dividends will not be disbursed until the Government suit against the company is settled. As compared with other specialty companies, American Can is making successful use of the world's disturbed conditions. It is reported to have orders on hand at very remunerative prices, and if the war continues will probably find no lack of orders. At the same time allowance must be made for the fact that the home demand may decline.

The preferred can be considered a purchase on any reaction. The stock, of course, always bears a speculative tinge. We cannot advise buying of the common except as a speculation in which the ruling factors will probably be the duration of the European war and the outcome of the Federal suit against the company.

\* \* \*

U. S. Steel depends for its commercial success in part upon the railways, and has therefore suffered from the late decline in orders which these transportation companies have been able to give. It can be only a question of time when normal activity will again place the big steel corporation in a position to resume dividends on common, even though it might react marketwise to a somewhat lower level before the great war is concluded.

In regard to the pending dissolution suit of the U. S. Government against this corporation, officials of the company are confident that the defense will be successful. Even should dissolution be ordered, the values be-

hind the securities of the company are large enough to protect holders of both classes of stock, as well as the bonds, and as we have seen in the cases of Standard Oil and American Tobacco dismemberments, a splitting up of properties among various members of a large combination may even have a favorable effect upon the quotations of securities involved.

#### Good \$100 Bonds.

P. D.—Some good baby bonds in which we could advise investment are the American Telephone & Telegraph convertible 4½'s of 1933, which at present prices yield about 4.5% and give you an opportunity of later turning the bonds into stock, should the latter rise to a profitable level.

Bethlehem Steel 1st and refunding 5's, 1942, yielding about 5.75%, are also inviting. This corporation is making an enviable record both in gross and net earnings.

City of New York regular 4½'s, 1964, yielding 4.2%, are an absolutely safe issue in which you could place a portion of your funds.

#### St. Louis S. W.—Distillers.

W. M.—St. Louis Southwestern is properly termed the "cotton belt road." Conditions throughout the South have been abnormally poor of late. Shipments of cotton, of course, have declined enormously from amounts which were transported in former years, and practically all of the business in the district served by St. Louis Southwestern has suffered in sympathy. This leaves the securities of the company at a market level inviting purchase for a long pull speculation. The cotton which is now held at various points will ultimately be shipped, and even if the farmers reduce the acreage devoted to that staple they will raise other crops of equal value to the railroad from the traffic manager's standpoint.

Distillers has made some improvement in earnings since the war began. The new management is making an energetic attempt to reduce expenses. The wave of prohibition sweeping parts of the country seems in practice to militate very slightly against the products of such corporations as Distillers.

#### Southern Ry. Scrip.

J. S.—Southern Railway paid its dividend in scrip because it found it necessary to conserve its cash resources during the present depression. The scrip pays 4%, was issued in December, 1914, and is due in five years from that time. At a price of 85 it nets about 7%; that is, in five years it would be paid off at par, therefore, in addition to the 4% per annum which the holders would receive, there would be a normal improvement in price, until at the end of the five-year period par is realized. This scrip, having a definite due date, comes ahead of all cash dividends on the preferred, and its status is practically that of a due bill which is payable at the time of

its maturity. We regard the scrip as an excellent purchase.

#### Cotton Belt—Col. & Southern

M. M.—St. Louis South Western has in recent years paid dividends ranging from 4% to 5% on its preferred issue, but in 1914, after paying 2½%, which was not entirely earned, dividends were discontinued. If the falling off in earnings were to continue at the same rate as for the five months ended November 30, 1914, the company would not earn its fixed charges for the current fiscal year. We have never been impressed with the ability of the Goulds to manage this property, and regard it as one to be avoided. If, therefore, you can dispose of your common stocks at a profit, it would be well for you to do so. For good, low-priced issues we suggest Ray Consolidated or Chino, the latter a \$2 per share dividend payer.

Colorado and Southern common, which was a 2% dividend payer from 1908 to 1911, inclusive, has in recent years been forced to suspend its distributions, but the company's business is, in spite of the depression, beginning to show a very material recovery. Control is held by the Chicago, Burlington & Quincy, and the only way that property can secure interest on its investment is to develop this stock into a dividend payer. Judging from recent performances, a resumption of dividends is only a question of time, and the common stock therefore looks attractive around its present price (26).

#### Air Brake—Seaboard.

T. M.—New York Air Brake.—The business of this company fluctuates with the prosperity or depression in the railroad world. We see no reason why you should sell New York Air Brake at a loss, as it is a stock which recovers very quickly and has seen about as unsatisfactory conditions in the past year as anyone could possibly expect. But we do advise you to avoid trading in the stock after you have closed out your present holdings, as there are many more satisfactory securities in which to deal.

Seaboard Air Line Preferred.—Just before the war broke out, this company was earning 9% on its preferred stock, and its earnings were showing the most remarkable increases of any American railroad company. The war resulted in tying up the cotton situation pretty badly, and left people of the South without available means of liquidating their product. The company's earnings and finances were thereby affected, and there was a considerable slump in the stock. But if one will take a broad view of the situation he will see that these conditions are only temporary. The war cannot last indefinitely, and as soon as it is terminated there should be a very rapid recovery in this stock. As a prospective 4% dividend payer (it is entitled to only 4%), which rate should be resumed as soon as financial conditions become more settled, we regard it as a very attractive speculative issue, and advise your holding it.

## Western Union

### Bird's Eye View of Its Progress for Nineteen Years

By G. C. SELDEN

**W**ESTERN UNION dates from away back. It was chartered by the State of New York in 1856 to succeed the New York & Mississippi Valley Printing Telegraph Co., which had been chartered in 1851.

This sounds like ancient history. Little would be gained by examining the earnings of the company earlier than 1896, the year from which our last big prosperity wave dated. I have had the most important statistics since 1896 put into the form of a graphic, which accompanies this article—miles of wire, gross and net income, per cent earned on the stock and dividends paid.

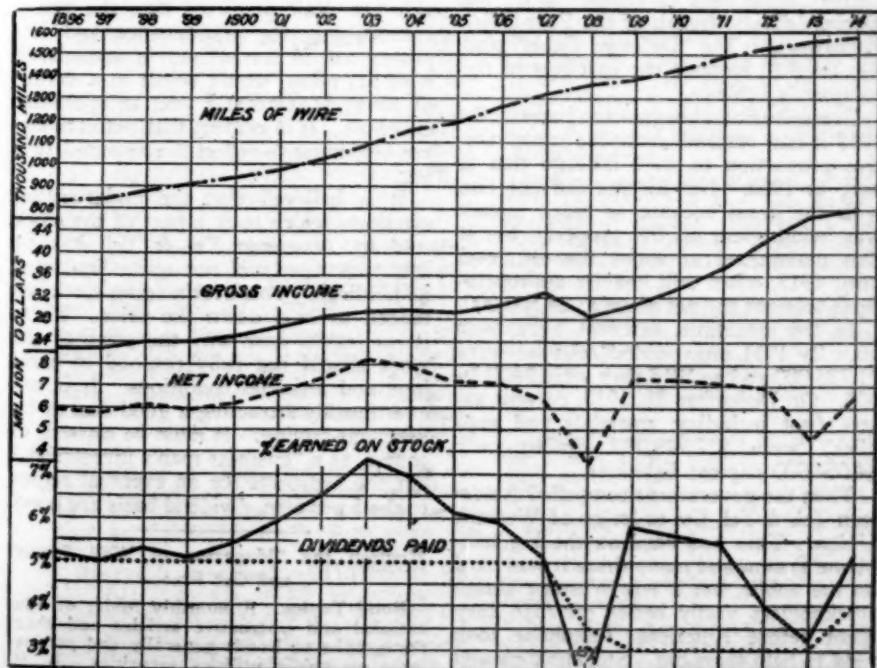
The lower down we go on this graphic the greater the fluctuations we find. The growth of the company's wire mileage has been almost steady throughout the nineteen years—a little faster during the exceptionally prosperous years from 1900 to 1907, and a little slower from 1908 to

1914, but in the main responding year by year to the broad growth of population and business.

With the gross income, however, the story is quite different. Up to 1903 gross kept pace fairly well with the wire mileage. Then growth stopped and from 1903 to 1909 the average of gross remained substantially the same, in spite of an increase from 1,090,000 miles of wire to 1,380,000.

What was the trouble? Increasing competition and lack of aggressive management. The property was then in control of the Gould family and they are not and never have been, father or sons, business builders. During these years the Postal cut into Western Union's business and the special delivery mail service carried messages that formerly would have gone over the wires.

As expenses could not be much decreased, net income suffered worse than



gross, until in 1908 the net seemed headed for the vanishing point and the earnings on the stock, which in 1903 had been 7.3 per cent., dropped like a plummet to 1.7 per cent. Dividends had to come down to a 3 per cent. basis, and this at last jarred the Goulds into returning consciousness.

In November, 1909, the American Telephone and Telegraph Co. acquired \$29,000,000 of the \$99,817,000 Western Union stock and assumed the active management of the property. From this point the story takes on a different hue. Theodore N. Vail at once began to galvanize the property into life.

American Tel. & Tel. had control of the property about four years. During that time millions were spent upon Western Union. A modern plant was built up, capable of transacting business efficiently and of earning a great deal of money. Dividends were kept down to the 3 per cent. basis so as to leave money for building up the property.

New ideas were applied to getting business. The "Night Letter" and the "Day Letter" were used to compete with the special delivery system of the Post Office Department. The "Deferred Cable" plan was used to increase the earnings of the company's cables.

Gross business began to jump. By 1913 it had reached about the same relative proportion to wire mileage that it bore in 1902. Net income did not rise with the gross because so much money was being spent on the property, but it was maintained at about the old level until 1913, when still heavier appropriations brought the net down to \$4,500,000.

In the meantime, reserves were built up. By 1911 unexpended reserves were \$1,723,000 and in 1913 they were \$4,213,000. On December 31, 1913, current assets (not including materials and supplies) were \$17,949,000 against only \$4,064,000 current liabilities.

Then the government compelled American Tel. & Tel. Co. to let go of Western Union. This was hard on the big telephone system and many think it was hard on the public, but it left Western Union stockholders vastly better off than they were before American Telephone took hold to help them out. Stockholders and the underwriters took the American's

Western Union stock at \$63 a share. Without a doubt it was worth the money, although the July war panic carried it down to 53¾.

The organization built up by the Vail management has remained substantially intact. It was Vail's plan to create a reserve of \$20,000,000 as a back-log. Apparently the present management will be content with less than this sum, but the present financial position of the company is strong.

The war has been a windfall for Western Union. Cable business gained 69 per cent. in the five months from August 1 to December 31, 1914, as compared with the previous year. On the other hand, the land line business fell off a little, where good gains would probably have been shown on a peace footing.

The result is that gross income for 1914 was about the same as 1913; but the net showed a good increase, owing to the increased efficiency and better general condition of the company, so that earnings on the stock were about 5.2 per cent. for the year, and the dividend rate was raised to 4 per cent. About a year ago Mr. Vail predicted that the heavy expenditures for maintenance and improvement, if carried out in accordance with his plans, would result in a saving of about \$1,000,000 a year in operating expenses. It is evident that net earnings are beginning to reflect the expected saving.

It is believed that the underwriting syndicate which took a part of the stock sold by American Tel. & Tel. has by this time nearly if not quite liquidated its holdings. This overhanging stock has tended to hold down the price. There is no reason now why the price of the stock should not fully respond to earnings and financial conditions. It is unquestionably attracting a good deal of investment buying. It must be classed, of course, as a "business man's investment," but the prospects for an eventual return to the 5 per cent. dividend basis are good.

#### Mention the "Magazine of Wall Street" and Get Free—

**Bond Topics.** A monthly folder of educational and instructive articles and short paragraphs on bonds generally and particularly on public utilities securities. A. H. Bickmore, 111 Broadway, New York.

## The Investment Digest

**T**HE items below are condensed from leading financial and investment publications and from official sources. Neither THE MAGAZINE OF WALL STREET nor the authorities quoted guarantee the information, but it is considered trustworthy. We endeavor to present in a few words the essential facts in regard to each company. Additional items will be found in the Public Utility and Mining, Oil and Curb Security departments.

**American Can.—EARNINGS** on common as calculated from annual report for year ended Dec. 31, 1914, were apparently better than 7%, although surplus reported equals only 24%, heavy expenditures having been made for improvements. Such improvements to amount of \$400,946 were charged against operation; \$1,651,428 were charged to construction and new equipment instead of to capital. "Other Investments" were increased during the year from \$515,582 to \$1,276,186. Total quick assets are now \$18,937,124; total liabilities only \$1,910,156 which leaves \$17,000,000 for working capital.

**American Sugar Refining. — DIVIDENDS.** Regular quarterly div. of 1 3/4% on common and 1 1/4% on pfd. declared payable Apr. 2 to stock of record Mar. 1. Company has had two poor years in succession.

**American Tobacco.—SCRIP** that holders may desire to present at Guaranty Trust Co. after Feb. 23 will be taken up at par with int. to Mar. 1. Regular quarterly divs. declared, 5% on common and 1 1/2% on pfd.

**Atchison, Topeka & Santa Fe.—EARNINGS** on common for 6 mos. ended Dec. 31st were slightly over 5% or 5/6 of full yr.'s div. requirements. Outlook for remainder of fiscal yr. satisfactory, as Texas cotton situation shows signs of improvement while Kansas wheat crop was huge, and only half the crop is reported sold to date. Hence farmers have probably not yet begun to spend receipts. When such expenditures begin, increased business for railroads should be reflected. Officials admit Panama Canal competition may become serious factor, but no immediate inroads into railroad fruit traffic are expected.

**Atlantic Coast Line.—DECEMBER EARNINGS** are the best reported so far this fiscal yr., gross crossing \$3,000,000 mark. Operating revenue was 20.9% larger than the yr. previous. Expenses are being forced into line corresponding to volume of business.

**Baltimore & Ohio.—RAIL ORDER** for 25,000 tons placed. Reports of large bond issue considered premature, although company has \$35,000,000—4 1/4%—1 yr. notes due June 1.

**Bangor & Aroostook.—DIVIDEND REDUCED** from 4% to 2% by semi-annual payment of 1% Feb. 1 last, which however was probably charged to road's previously accumulated surplus. Latter stood at \$126,822 at beginning of current fiscal year. From past 6 mos. operation deficit was \$53,344.

**Boston & Maine.—REVENUES SLUMP.** Co. earned only slight surplus after charges in last half of 1914. Operating costs being radically cut to save appearances of expense account. Net income for 6 mos. to Jan. 1 was \$114,497 compared with \$82,778 for prev. corresponding period.

**Canadian Pacific.—DIVIDENDS UNCHANGED.** Usual quarterly payment of 2 1/4% authorized on common and regular semi-annual 2% on pfd. Both payable Apr. 1 to stock of record Mar. 1. In 6 mos. ended Dec. gross fell off \$19,348,036 or abt. 25% and net \$7,577,860 or 24%. Continued at this rate with allowances for seasonal changes in traffic net for yr. ended June 30 would show loss of about \$10,000,000. Greater part of rail earnings decrease may be ascribed to war. Immigration also has been considerably checked. Steamship, hotel and land renting and selling agencies are believed to have fared badly.

**Chi., Mil. & St. Paul.—EARNINGS FALL OFF SLIGHTLY.** In 6 mos. ended Dec. 31 gro. revenues declined \$1,583,886 and decrease in operating expenses was abt. 1/2 that amt. Jan. loadings increased 5%, miscellaneous freight gaining substantially which is considered to represent improvement in general business conditions in the districts served.

**Chicago & North Western.—OPERATING INCOME** for Dec. was \$1,546,706 a decrease of \$85,690. For last 6 mos. of 1914 operating income was \$11,184,636, a decrease of \$1,010,331. 27,000 tons steel rails bought.

**Chesapeake & Ohio.—OPERATING INCOME** for Dec. was \$721,444 comparing with \$788,113 for corresponding period yr. previous. Operating income for last 6 mos. of 1914 was \$5,072,203, a decrease of \$299,967.

**Denver & Rio Grande R. R.—REPORT** for 6 mos. ended Dec. 31, 1914, shows net after taxes, \$3,641,430 comparing with \$3,691,921 for 1913, a decrease of \$50,491.

**Distillers' Security.—BUSINESS AHEAD** of last yr. according to officials. Co. earned more than double int. on its 5% bonds for last fiscal yr. and should improve on this in current period.

**Erie R. R. Co.—EARNINGS** for 6 mos. ended Dec. 31, 1914, show gro. \$31,216,708, a decrease of \$1,332,249 from prev. comparative period. Surplus after charges,

\$771,501 comparing with \$429,862 for last 6 mos. of 1913. Co. has ordered 28,000 tons of rails. Guaranty Trust Co. has purchased the \$7,000,000 Erie & Jersey Railroad 1st mtg. 6% gold bonds, due 1915, and is forming a distributing syndicate to offer the bonds in the near future.

**Great Northern.**—REPORT for Dec. & 6 mos. shows operating income \$1,887,321, an increase of \$244,960 over corresponding prev. period. Dec. operating income was \$1,534,669 as compared with \$1,648,036, a decrease of \$113,366.

**General Chemical.**—NET PROFITS increase in spite of dullness. Annual report for yr. ended Dec. 31 shows 18.71% earned on common, as compared with 19.19% in prev. yr. Report states that period has been one of continued dullness and apprehension in mfg. circles, and Co. did not altogether escape consequences. Co. is not dependent for raw material upon any of the countries engaged in war. Reg. quarterly div. of 1½% on common declared payable Mar. 1 to stock of record Feb. 23.

**B. F. Goodrich Co.**—PRELIMINARY REPORT for 1914 shows satisfactory net. Co. earned more in closing half of yr. than in 1st half. 1915 was begun with no bills outstanding; cash carried, above \$4,000,000. Current assets in excess of \$20,000,000; current liabilities \$1,470,000. Earnings on \$60,000,000 common were \$3,340,000 or 5.6%.

**International Mercantile Marine.**—INTEREST on the \$17,879 Inter. Navigation Co. 1st mtg. sinking fund gold bonds of the I. M. M. Co. has not been provided for and is not being paid. The Co. has 7 mos. in which to make the payment before the bonds are in actual default. A committee has been formed to represent the interests of the holders of the bonds and a call has been issued for a deposit of their holdings.

**Illinois Central.**—JANUARY EARNINGS decreased over 5% but show considerable improvement over preceding months. Earnings of entire system in Jan. lower by \$700,000 or about ½ of last Nov.'s decrease. Officials find trend of traffic slightly upward.

**International Harvester.**—PROFITS DECREASE. Co. earned 12¼% on common in 1914. Pres. McCormack says New Jersey Corporation added \$3,000,000 to surplus account, making total \$22,500,000. Co.'s offering of \$20,000,000 5% notes have been oversubscribed. These are dated Aug. 15th, 1914, and mature Feb. 15, 1918. \$50,000,000 are for refunding equal amount of notes of old Inter. Harv. Co. due Feb. 15 last; remaining \$5,000,000 have been used in reduction of bills payable.

**S. S. Kresge Co.**—SALES for yr. ended Dec. 31, 1914, were \$16,097,571, an increase of \$2,839,344 over 1913. Profits for 1914 are estimated at \$1,050,000, a gain of 20.72% over prev. period. These earnings are suffi-

cient to pay pfd. div. and leave \$910,000 or over 18% on \$5,000,000 common stock.

**Missouri, Kansas & Texas.**—ANNUAL MEETING called for Apr. 8 will decide increase of annual int. rate on consolidated mtg. bonds to 6%. These bonds now carry 5%. This is intended to place Co. in position to sell the bonds and redeem the notes maturing May 1 next whenever bond market conditions become favorable. Report for 6 mos. ended Dec. 31, 1914, shows gro. \$17,202,212, a decrease of \$278,360 from same period yr. prev. Surplus after charges was \$1,405,030, an increase of \$491,604.

**Missouri Pacific.**—CO-OPERATION of all security holders is considered requisite to financial rehabilitation without aid of courts and costly receivership. Responses to call for proxies by new and strong banking interests for annual meeting Mar. 9 is encouraging. Retirement of 7 of present directors expected. Those to go out will probably be Geo. J. Gould, Howard Gould, Kingdon Gould, James Speyer, J. G. Metcalfe, E. T. Jeffery and S. F. Pryor. Kuhn, Loeb & Co. will not be directly represented on the new board. Financial reconstruction will be taken up, according to present understanding, after the annual meeting, no definite plans for readjustment having been worked out to date. It is proposed to raise adequate capital by an issue of securities involving no int. charge, and to revise restrictions in existing mtgs. so as to permit extension of underlying bonds.

**Minneapolis & St. Louis.**—REPORT for 6 mos. ended Dec. 31 last shows gro. \$5,316,892, an increase of \$292,215 over same period yr. prev. Surplus \$262,978, an increase of \$108,871. Co. will increase terminal facilities in city of Minneapolis, improvements including recent purchase of land to cost abt. \$152,000, entire amount being met out of earnings. No financing in view for 1915. Coming crop traffic expected to be much larger than was realized last year.

**New Haven.**—REPORT for Jan. showed operating revenues 3% below those for corresponding 1914 period. \$2,400,000 decline in gro. for 1st half of current fiscal year was offset by \$2,200,000 cut in operating expenses. During these 6 mos. ¼% was earned for stock. Bill has been introduced in Connecticut Senate, in accordance with request of Pres. Elliott of New Haven, for enabling legislation in connection with proposed issue of bonds to extent of \$400,000,000, and which will be introduced in the legislatures of other states. It provides that bonds, debentures, notes or other evidences of indebtedness may be issued by a railroad or street railway company to the extent of twice the paid-in capital stock of the company. Bonds issued to retire on or before maturity bonds and other evidences of indebtedness previously issued are, however, not to be taken into account in applying this limitation. Any mortgage exe-

cuted by a railroad or street railway company must secure all its outstanding bonds, debentures, etc., previously issued by company or assumed by it through merger, except outstanding bonds secured by direct mortgage or by collateral held in the hands of a trustee. No bonds, debentures or coupon notes payable at periods of more than 12 months can be issued unless authorized by vote of stockholders.

**New York Central.—BOND ISSUE** over-subscribed. Applications for participation in underwriting of \$100,000 convertible 6's quickly exceeded amount of issue. Court has decided against Clarence Venner and Continental Securities Co. in suit to prevent New York Central from carrying out Lake Shore consolidation.

**Pennsylvania R. R. Co.—ALLOTMENTS** to subscribers for \$49,000,000 cons. 4½ bonds were abt. 18% of amt. subscribed for. Placing of this issue at a little above par to the Co. is considered the most successful feat in recent railway finance. No large immediate appropriations for equipment expected. Co. has had 35,000 idle cars on tracks and in shops for months.

**Rock Island—ANNUAL MEETING** for election of 4 directors fixed for Apr. 12, 1915. Report for 6 mos. including Dec. last shows gross \$38,234,556 comparing with \$36,497,298 for same period of 1913. Net after taxes was \$7,986,876 as against \$8,064,513. N. L. Amster, chairman of the minority shareholders' committee, says latter has no affiliation with the Sheldon committee.

**Republic Iron & Steel.—REPORT** for yr. ended Dec. 31 shows net earnings \$2,330,672 comparing with \$4,958,342 in 1913. Surplus after pfd. divs. was \$153,748 comparing with \$1,351,300 prev. yr. The net earnings equal 4.11% on \$25,000,000 pfd., compared with 12.4% prev. yr.

**Reading.—COMBINED SURPLUS** of all companies in Reading System for 6 mos. ended Dec. 31 was 16% under 1913 figures, and the smallest since 1910. Profits of Philadelphia & Reading Coal & Iron Co. showed improvement over results of corresponding period of yr. before, but earning of Phil. & Rdg. Railway declined sharply. The Coal Co.'s surplus in the 1st half of the current fiscal yr. more than trebled as compared with 1913, but the surplus of the Ry., the important member of the system, decreased from \$4,052,589 in the 1913 period to \$2,921,566 in the last 6 mos. of 1914, a decline of \$1,131,022, or 27.9%. Gross earnings of the railway totaled \$24,225,085—smaller by \$2,361,838, or 9%, than the \$26,586,918 the year previous.

**St. Louis Southwestern.—DEFICIT.** Report for 6 mos. including Dec. last shows gro. \$883,388 comparing with \$1,182,664 in 1913. Deficit after charges \$126,456 comparing with a surplus of \$697,953 for 1913. Dec. business was extremely bad, but better results are looked for between this date and the end of the fiscal yr. Cotton traffic

is picking up and lumber business improvement is also anticipated.

**Southern Pacific.—SUIT** by Government to oust Railway Co. from mineral land filed on as agricultural, successful in first case. Although Co.'s net for the first half of the fiscal yr. ended with Dec. was \$3,101,241 less than in 1913, freight earnings for the 1st 6 mos. were as high as in 1913 in spite of the opening of the Panama Canal. This is credited to the development of Southern Pacific's territory. With the opening of the Panama Pacific Exposition, passenger earnings are expected to rebound sufficiently to bring the year's net to abt. the 1913 level, when 7.5% was earned for the stock.

**Sears Roebuck.—JANUARY SALES** were \$7,957,339, a gain of \$212,767 or approximately 2¾%. Co. will mail more than 6,000,000 catalogues this yr. It is estimated that the parcel post will save Chicago mail order concerns \$2,500,000 annually.

**Texas Co.—COURT DECISION** that this Co. is not a trust is expected to have important effect upon application which corporation has made to Texas legislature to have charter powers enlarged. Co. desires right to engage in business outside of Texas, to organize and own subsidiary cos. and to produce oil in addition to carrying on pipe line and refining business.

**United States Rubber.—ANNUAL MEETING** will be held Mar. 16 at New Brunswick, N. J. Embargo on importation of plantation crude rubber has created a situation entirely without precedent, hence prices for rubber footwear have not been fixed at the usual date. Export business has been respectable, amounting probably to \$750,000. A British army order for 200,000 pairs of rubber boots is also understood to have been received. French Government order expected. Factories now employing abt. 1500.

**United States Steel.—UNFILLED ORDERS** increased 411,928 tons in Jan. Operations lately at about 50% comparing with 35% in last quarter of 1914, but will be on a larger scale this mo. Steel mfgs. regard the situation as improving although very slowly. Since passing of common div., amt. of Steel common & pfd. that has changed hands has been comparatively small.

**Woolworth Co.—REPORT** for yr. ended Dec. 31, 1914, shows net sales \$69,619,669, an increase of \$3,391,597. Net income decreased \$31,222 to \$6,429,896. Surplus is \$2,432,396, a decrease of \$228,722.

**Westinghouse Elec. Mfg. Co.—NOTE CANCELLATIONS** during current fiscal yr. ending Mar. 31 approximate \$5,000,000; outstanding conv. bonds have been reduced \$500,000. Cash position has not been greatly lowered. This will save the Co. over \$500,000 int. annually. At the close of the last fiscal yr. the Co. had working capital

of \$30,000,000 of which \$6,343,000 was in cash. Good financial position of Co. has been maintained during this yr. so that it is prepared to take advantage of any improvement in business.

**Western Pacific.—READJUSTMENT** of capital obligations reported as likely to include scaling down of \$50,000,000 1st mtg. 5% bonds to \$25,000,000; bondholders to receive in exchange new adjustment income bonds which will be a lien on the earnings of both Western Pac. & Denver & Rio Grande.

**Western Union.—JANUARY BUSINESS** increased 3% as compared with an 8% decrease in Oct.

**Wabash.—SALE UNDER FORECLOSURE** set for Mar. 12. Following are the securities and property to be offered: 1. Demand note of the Wabash Pittsburg Terminal Ry. Co. for \$1,500,000 dated May 1, 1905. 2. Demand note of the Wabash-

Pittsburg T. R. Co. for \$1,500,000 dated May 1st, 1905. 3. 2,400 shares of par value of \$100 each of the capital stock of the Belt Ry. Co. of Chicago. 4. 1,217 shares of par value of \$100 each of the capital of the Amer. Refrig. Transit Co. 5. 12,000 shares per value of \$100 each of the capital stock of the Pac. Express Co., and 6. \$5,000,000 par value 1st ref. & Ext. mtg. bonds of the Wabash R. R. Co. having attached thereto the coupons maturing on Jan. 1st, 1912, and all subsequent.

**Western Maryland.—IMPROVED SITUATION** due to operating economies. Dec. gross decreased \$35,000, but this was converted into a net increase of \$71,000 by reductions in expenses. For 6 mos. including Dec., 1914, gross decrease of \$110,000 was converted into net increase of \$340,000 over figures of same period in yr. prev. As present low basis of costs was reached on small traffic volumes, better showing is expected when business improves.

## PUBLIC UTILITIES

### Jitney Busses Now the Topic of Livest Interest

**T**HE question of what the jitneys will do to the street railways is still the subject of lively discussion among public utility investors. The *Seattle Post-Intelligencer* gives the following estimate of the business the jitneys are doing:

| City                  | Number<br>Cars | Daily<br>Receipts |
|-----------------------|----------------|-------------------|
| San Francisco .....   | 300            | \$2,400           |
| Transbay cities ..... | 450            | 3,600             |
| Los Angeles .....     | 1,050          | 8,400             |
| Portland .....        | 75             | 600               |
| Seattle .....         | 500            | 4,000             |
| Totals .....          | 2,375          | \$19,000          |

On the Coast, many are predicting that the jitney business is still in its infancy. In San Francisco the jitney men have organized and guarantee to furnish 2,000 cars for the opening day of the exposition. We called attention in the last issue to the spread of the jitney idea Eastward. Agitation for five-cent bus lines is making itself felt even as far East as Baltimore, New York and Boston.

In some cities definite routes are laid out and the jitneys start from a common center, their destination being announced

by a "starter." Most of these vehicles, however, are still run on the plan of picking up a load going in a certain direction and then reaching the destinations of the various passengers as soon as possible. Many passengers enjoy the novelty of an automobile ride and do not mind if they are carried over a little longer route than would be strictly necessary in order to reach their homes.

In San Francisco the Standard Oil Company has come forward and offered to bond all jitneys for the protection of the public, provided that the owners agree to purchase only Standard Oil gasoline, oils and greases for a period of one year. In a month after the first jitneys made their appearance the Frisco "used car" market was practically swept bare of usable machines. Automobile manufacturers are naturally interested in encouraging the jitney movement.

Street railway officials call the jitneys "road pirates" and complain of the unfairness of being compelled to pay for the use of a few streets only while the jitneys use all streets free. Public util-

ity interests, however, do not believe that the jitneys will seriously endanger street railway profits. In Los Angeles there were about 1,400 buses running last October and not more than 700 now. It is figured that it costs four to five cents a mile to operate a jitney, not counting depreciation nor the wages of the driver. Many men out of work have bought second hand cars for a first payment of \$50 or even less and are trying to pick up a few dollars by running jitneys. In Los Angeles accidents have increased 25 per cent. to 40 per cent. as a result of the jitneys. While a considerable number of routes may be permanently successful, it is believed that depreciation and accidents will reduce the profits of most of the independent drivers to very small wages.

**T**WO years ago the Wisconsin Railroad Commission ordered the Milwaukee street railways to sell 13 tickets for 50 cents. The order has now been rescinded because the company's earnings are lower on the investment than the cost of new capital for other similar undertakings. This is an example of the growing tendency to deal fairly with public utility corporations.

Detroit has furnished another instance of the futility of the argument that lower fares mean more passengers. At the reduced rate of seven tickets for 25 cents in 1914, the increase in passengers carried in 1914 was less than half the increase that had been shown in 1913. Moreover, both gross and net earnings fell off to the tune of about half a million each.

## Notes on Public Utilities

**Brooklyn Rapid Transit.**—GROSS INCREASED nearly \$1,000,000 in 1st 6 mos. of fiscal yr. Surplus of \$3,096,000 equals 8% on stock.

**Capital Traction Co.**—LOWEST GROSS EARNINGS reported for 1914 since 1911; reduction in divs., however, permitted materially larger surplus to be carried to profit and loss than in 1913. Quarterly div. was reduced from 1 1/4% to 1 1/4% in Aug.

**Chicago Telephone Co.**—REPORT for yr. ended Dec. 31, 1914, shows net revenues \$2,570,596, or 9.52% on \$27,000,000 capital stock, and compares with 9.76% on same stock prev. yr. Surplus after divs. for 1914 was \$406,221, comparing with \$475,554 in 1913.

**Cities Service.**—REPORT for 12 mos. ended Dec. 31 last shows net earnings \$3,817,545, comparing with \$2,087,063 for previous yr. Surplus after divs. \$1,290,504, comparing with \$588,797 for prev. 12 mos. Decrease in outstanding stock is occasioned by re-delivery to the treasury of certain stock held to finance the purchase of stock of St. Joseph Co. The balance due now being put into bills payable, extending over a period of 2 1/2 yrs.

**Columbus Railway Power & Light.**—GROSS EARNINGS in 1914 were \$62,844 larger than in 1913, through reduction of \$34,179 in operating expenses, although Co. carried 610,081 fewer passengers in 1914 than in prev. yr. Because of the assessment of \$20 a share made on Col. Ry. & Light stock to pay floating debt and also owing to cancellation of leases of operated companies and their consolidation under the new corporation, there was a reduction of \$521,000 in int. charges and rentals. The consolidation of the Cos. result-

ed in issues of new pfd. and common stocks, and the money which previously had been paid in rentals under the leases is now paid in the form of divs., which in 1914 amounted to \$448,185, or within \$72,815 of the amt. saved in rentals and int. by the consolidation. Surplus after divs. for 1914 was \$177,393.

**Commonwealth Power, Ry. & Light Co.**—REPORT for 16 mos. ended Dec. 31, 1914, shows net income \$2,243,734. Balance after pfd. divs. \$1,283,734. Securities and property owned are figured in assets at \$402,7574.

**Consumers Power Co. of Minn.**—NOTES SOLD. \$100,000 collateral trust 6's disposed of. Co. has been making rapid strides, increasing earnings, output, and number of customers.

**Dayton Power & Light Co.**—REPORT for yr. ended Dec. 31, 1914, shows gross earnings of \$945,563, an increase of \$210,794 or 28.68% over prev. yr., which, however, includes the flood of 1913. After pfd. divs. there remain \$103,145 for com.

**Detroit United Railways.**—ANNUAL REPORT for yr. ended Dec. 31, 1914, shows surplus after charges \$550,000, against \$780,000 in 1913. Lower fares failed to stimulate travel. Increase in passengers for 1914 over 1913 was less than half that of 1913 over 1912. Depreciation charges were also reduced.

**Kansas City Ry. & Light Co.**—REORGANIZATION PLAN announced. No assessment on stock proposed. To pay debts there will be issued new 25 yr. 6% 1st lien collateral mortgage notes. The Elec. Light Co. will be left without lien on its property and with power to mortgage it for future extension, provided stockholders raise \$150,000 for every \$850,000 raised by

bond subject to Commission's approval. To meet immediate working capital requirements of \$3,400,000, new 25 yr. 6% second lien Ry. & Light notes will be issued, their security being secondary to that behind the first lien notes.

**Laclede Gas.**—REPORT for yr. ended Dec. 31, 1914, says property has never been in such sound condition and 1915 prospects are bright. Gross was \$4,629,689, comparing with \$4,533,491 for 1913. Surplus after pfd. was \$877,448 or equal to 8.2% on \$10,700,000 common, against 8.16% earned on same stock prev. yr.

**Massachusetts Electric.**—EARNINGS and profits hold their own in spite of depression. Co. is considered to have done remarkably well, for 6 mos. to Dec. 31, taking into consideration general business conditions in territory served. Gross earnings for the period show increase of \$22,500. Expenses increased \$68,000, but of this \$60,000 created a depreciation reserve, as required by Interstate Com. Com.

**Massachusetts Gas.**—EARNINGS for Dec. show 9% decrease in net and are smallest for that mo. in 4 yrs. For 6 mos. to Dec. 31 the total surplus for divs. of subsidiaries was \$1,296,693, an increase of \$23,000 over 1913.

**Minneapolis Gas Light.**—GAINS IN GROSS but increased manufacturing costs cut net earnings below those of 1913. Sale of by-products was important factor in profitable operation. Co.'s funded debt was increased to \$6,482,000 from \$6,230,000 in 1913.

**Montana Power Co.**—REPORT for last quar. of 1914 shows depressing effect of curtailment at large copper mines in Montana Power Co.'s territory. For 1st 9 mos. of yr. Co. reported steady gains in gross earnings, but for last quar. these fell off \$44,348 from corresponding 1913 quar. Operating costs were reduced \$11,706; net earnings showed decrease of \$32,642 for 3 mos. ended Dec. 31, 1914, as compared with same period in 1913.

**Niagara Falls Power.**—FINANCIAL CONDITION reported satisfactory. Combined balance sheet of Niagara Falls Power & Canadian Niagara Power for Dec. 31, 1914, shows improvement over prev. yr. During period \$47,890 was added to property acct. which now totals \$24,473,953. Capital stocks were unchanged and funded debt reduced \$1000. Reserves for amortization were \$995,627, an increase of \$109,406; surplus was \$2,964,881, a gain of \$488,529. Combined gross for 1914 decreased \$66,218. Operating expenses also decreased \$26,756, making net earnings \$39,461 less than in preceding yr. Board is considering installation of 3 additional generating units.

**Peoples Gas Light Co.**—REPORT for yr. ended Dec. 31, 1914, shows surplus equal to 8.55% on stock, comparing with 7.49% yr. prev. Cash on hand \$4,781,411. Gross earnings were \$16,800,538 comparing with \$16,825,534 in 1913.

**Twin City Rapid Transit.**—REPORT for year ended Dec. 31, 1914, shows Co. in excellent financial condition. Gross earnings increased \$429,369 and net was larger by \$91,839 than in 1913. Capital expended for additions and extensions aggregated more than \$2,364,000 and was raised by sale of stock to stockholders at par.

**United Railways of St. Louis.**—RESULTS for 1914 were not as satisfactory as those for 1913. For 1st half of last fiscal yr. receipts were fairly good, but after July 1 each month showed decrease. Pres. McCullough declares that conditions became so serious that it became necessary to curtail service, which diminution however was not proportionate to decrease in receipts. For Nov. & Dec. gro. diminished 9.54%.

**United Traction of Pittsburgh.**—PROTECTIVE COMMITTEE formed to take care of pfd. stock holders' rights. Phila. Trust Co. chosen as the depository.

**Western Power.**—REORGANIZATION PLAN a success. It is understood that more than 92½% of pfd. stockholders have deposited stock approving capitalization readjustment. Earnings are running at rate of abt. twice 6% pfd. div. requirements, but cash divs. not immediately expected owing to desire to conserve quick assets and to the necessity for some junior financing, taking up \$1,250,000 in 6% notes maturing July next.

## PUBLIC UTILITY INQUIRIES.

### Detroit United Ry.

Please give me your opinion of stock of the Detroit United Railway. The City of Detroit is making a valuation of the property in Detroit proper with a view to purchasing. If the city did purchase, how would the stock be affected?—T. R.

It is impossible to state in advance of the transaction what effect a possible purchase of a street railway by the municipality served would have upon the price of the stock. While two men are bargaining over a horse it is hard to tell in what time he can trot a mile. Wait till the new owner gets into the saddle.

### Chattanooga Gas—Huntington Land Bonds.

E. M.—The Chattanooga Gas Co. is controlled by the United Light & Railways Co., whose subsidiaries show large combined earnings. United Light & Railways has been expanding rapidly.

Huntington Land and Improvement Co.—The securities of this corporation bear a decidedly personal tinge. The funded debt consists of collateral trust notes, security for which is apparently ample, but the corporation's future depends upon the factor of management to so large a degree that no decided opinion as to the security of the bonds over a long period of years can be given. We do not recommend this type of bond.

# MINING, OIL AND CURB SECURITIES

## Limiting Your Risks in Mining Stock Speculation

By ARTHUR PRILL

**T**HE recently popular song, "It's a long road to Goldfield but my Jumbo's right there" has now given way to "Bring back, bring back, oh bring back my bankroll to me, to me." It seems a pity that any readers of the *MAGAZINE OF WALL STREET* should have listened in this instance to the sirens of the curb, yet a few have done so as our private correspondence shows. We do not like to say in print what we think of those responsible for the movement of Jumbo Extension from a few cents to beyond three dollars and back into the cents level again, but we will try to show how even in mining stock speculation risk may be reduced to reasonable limits.

In order to arrive at a clear understanding of the possibilities before the mining stock buyer let us divide these stocks and the properties they represent into the classes into which they naturally fall:

(1) **FAKES**, never intended or expected to produce ore profitably.

(2) **PROSPECTS**, or pure incarnations of more or less honest promoters' hopes and fears.

(3) **DEVELOPMENTS** — mineral properties whose content of commercially profitable ore is proven in whole or in part, but which have not yet reached the stage of steady production.

(4) **MINES** whose names can be found on the dividend list published weekly by the *Mining and Engineering World* of Chicago, or in other lists which, however, are not, as far as we know, so complete.

Even the *Mining World's* list fills only two pages; this, however, is due to the fact that the real, bred in the bone miner who also possesses enough business experience to develop his find does not care for the stock market—he finds it too risky. When he gets a good thing he hangs on to it without any pretense of letting in the dear public. For example, the "North Star," quoted on the New York Curb at around fifteen cents a share, is located at Tonopah, Nev., and does not figure in that good camp's ore shipments, while "North Star Mines Co.," whose property is located at Grass Valley, Cal., and which has annually given the world a million dollars' worth of gold for several years, is not on the market.

To return to our classification; No. 1 is evidently to be avoided at all costs. No matter how large the promised profit, if we are doubtful of the character of a mining property's management, the absolute rule is—Keep Out. Human nature is itself a variable thing and bonding companies will not guarantee a man whom it can not watch either personally or through his interests. Just as you would not leave your money with a banker who had passed through several failures, or buy your spring overcoat from a tailor who sold you shoddy last year, so the mining stock speculator should see that the men behind his purchase have at least no record of financial mistakes.

At this writing a certain promoter is sending out prospectuses and circulars backed by telegrams from bankers and

THE *MAGAZINE OF WALL STREET* accepts no mining stock advertising, nor does it take the advertisements of any broker who features issues which we consider highly speculative, or who in our opinion might foist undesirable stocks upon investors. We strongly recommend that all trading in curb and mining as well as listed securities be done through houses whose names appear either on the New York Stock Exchange membership list or in the pages of *THE MAGAZINE OF WALL STREET*.

state officials apparently verifying the uprightness of the undertaking. Regard such gratuitous testimonials as *The Sign of the Fake*. In the given instance one of the signatures is that of a well known Reno man who long ago placed all tangible property in his wife's name and owes the writer of this article a hundred odd dollars for work and expenses on a professional job completed five years ago.

Such incidents in the careers of men behind mining fakes come to the knowledge only of those of us who are actively connected with mining, but the public can make a general rule that recommendations of small western bankers and business men may be worth nothing at all. The promoter must prove by his actual record not only that he is not guilty of "mistakes" but that he is a success.

Under classification No. 2, Prospects are the necessary precursors of mines, but working them is accompanied by such great risk that the city speculator can not hope to enter this field and make money in the long run; that he should ever make a dollar's profit here is about as much a matter of chance as being struck by lightning. Successful mining is founded on Distribution of Risk. The prospector properly so called is a miner of wide experience who devotes his life to the problem of finding a good mine. In the course of a season, between the melting of the snow in the foothills and the first heavy fall that covers the ground with white, he may wander over two hundred miles of mountain country picking up surface samples everywhere, examining them more or less closely. If one "looks good" he'll pound it up in his little portable mortar and pan it, that is, wash the powdered rock in water, letting the earth and sand float away to see if any yellow particles of gold or darker heavy minerals remain in his pan.

The success of the proceeding may be such that he will "make camp," and put in several days digging one or more pits from five to ten feet in depth along the outcrop or ledge or where he thinks the ledge ought to be if it is not visible on the surface. In the early days of Goldfield the sides of every hill were furrowed with long trenches dug through the softer top dirt to cut all possible

ledges at easy depth of about three feet.

Next the prospector is likely to take half a dozen samples *from the richest looking spots* and "blow into town," the nearest larger camp where an assayer may be found and the time passed away in a comfortable saloon and gambling house. Whether the prospector has any money or not is a mere detail. The assayer may make a thorough examination of the samples (if these are apparently worth the trouble) for a small interest in the claims. Someone or other is sure to call out during the day—"Everybody come and have a drink," and once you get the faro or roulette habit, the thing in the world while second only to playing, is watching the cards or the marble fall and speculating on what you would have done if you had possessed the necessary chips. The New York or Waterbury, Conn., speculator who comes into the mining game at about this stage stands as big a chance of winning as the penniless miner beside the faro table. This is nevertheless the point of development at which the stock selling campaign is hatched.

The prospector lays the matter before the financiers of the camp as they call him to the other end of the room. The financiers usually include at least one proprietor of a gambling house, a wandering "broker" ever ready to hang out his sign in a new district, and some Easterner wise in the ways of prospectus building, looking for a likely project. One or two of the lot having gone with the prospector to the claims to make sure that he took the samples from hitherto unstaked ground, and some more assays having been completed, a home-made contract is signed, the prospector is guaranteed, say, three hundred thousand shares, and is handed from a hundred to a thousand dollars cash, of which eighty-five per cent. returns to the gambling house proprietor via faro table and bar. The financiers chip in a few hundred dollars each to build a small hoist and blacksmith shop at the "mine," perhaps a miners' boarding house is put up if winter is near. Possibly a "manager's office" also. Buildings are always good, they make the best possible show in a photograph.

Now the eastern end of the corpora-

tion opens shop, advertisements are placed, sucker lists circularized and you, dear public, are welcome as the flowers in May. Remember that even if the assay reports are not exaggerated they were taken from the best looking spots, which is as reliable a method of ascertaining values as judging December temperature by a thermometer located above a burning gas jet.

However, everybody from prospector up sincerely hopes that the prospect will make good, but rarely is enough working capital secured to make success possible. The average prospect needs a hundred thousand dollar investment before it reaches a basis that can be considered both profitable and reasonably safe. Financiers of the type described are hampered by a flexible morality. Their point of view is expressed somewhat like this: "This is a tough country; the water is bad and the grub is worse. While we're in these hills we sacrifice just about everything worth living for, except fresh air, and when we go under ground into any little badly ventilated mining prospect we go short even of air. Somebody's got to pay us for this trouble. The eastern stock buyers are putting in only a little surplus cash while they sit in easy chairs; they will have to take all the money risk while we cover ourselves for whatever funds we lay out."

Some go further and charge up ample personal expenses. This is easily done as no one can check up the accounts of a corporation doing business under average mountain or desert country conditions. We are, of course, no longer speaking of classification No. 1, the absolute faker who pockets ALL he can.

The prospector and his first partners are usually wiped out within the first two years. During that period they may have done enough work to prove that a comparatively small additional expenditure on labor and equipment would make an excellent appearance, and this is the hour of the larger promoter. He gains control for a pittance, lists the stock of the reorganized company on mining and curb markets and by a widespread and clever campaign enlists support in ever increasing circles.

This operator would not have taken up the property unless he had made certain of at least one small streak of rich ore. It is mined with accompanying blare of trumpets; mill or smelter returns of a few sacks or carloads are apparently brilliant and future returns calculated upon this basis make the prospect (now falsely termed "mine" by the operator) look like a sure dividend payer—on paper. A dividend or two may even be declared if the rich streak or the stock sales are maintained for a month or two. When either ore or suckers peter out or when it suits the operator's books to unload or go short of the stock in the public market which his good advertising has created, the quotations are apt to drop with a suddenness that permits none of the dupes to get out with ten per cent. of the margin they have put up; if they bought outright they may get back thirty per cent. by quick action, but having in the majority of instances bought through curb houses whose interest lies in making the speculator lose as much as possible, they write to these firms and ask for advice. The answer usually reads something like this:

Dear Sirs:

X. Y. Z. Extension has lost nothing of its intrinsic mine value by the recent slump in market quotations which was caused by the bear contingent aided by certain big operators who are actuated by selfish motives, perhaps jealousy, and who possess no regard for the interests of the public. The curb as you know has now been placed upon a high moral plane second only to that of the Big Exchange and it would be utterly impossible for you to really lose your holdings if you hang on. Wire us—blank—dollars immediately at our expense, to cover your margin for another possible drop of a few points for there may come a final shake-out after which the new parties in control will not only allow this stock to take its normal upward course, but in order to insure their own profits they will rapidly force quotations to a level that will make your purchase the best investment

seen by this generation of mining men.

The U-21 drift of X. Y. Z. Extension is now being pushed with all possible speed in the direction of the shale bed upon which lie the huge deposits that have made Giltfield Extradition the greatest dividend payer in the world. The raise from the Northwest level is going up at an angle of 42 degrees from the rational and inside of a week you and the rest of the investing public will be astounded by the news which at present is the big secret of the situation—Mr. Blank, the manager; Mr. So and So, superintendent of X. Y. Z., and ourselves are the only persons acquainted with the facts and we give you the information in strict confidence as it is to be used only for the benefit of our very best clients. X. Y. Z. will within this week open up a body of Four Hundred Dollar ore, large enough to keep all milling facilities obtainable busy for from ten to twenty months and during this time other bodies are sure to be developed. If you intend to take advantage of this information

wire us immediately (all telegrams at our expense) and we will reserve for you a block not exceeding one thousand shares until your draft can arrive.

We trust that you will not miss this unparalleled opportunity but  
**WIRE US AT ONCE.**

Yours very truly,

Now here lies always a chance—about one in ten—that the rich streak may continue for hundreds of feet or that other good bodies of ore may be found in the property sooner or later; that is the beauty of mining—even a swindle may (on very rare occasion) prove so profitable that the originators can not bag all profits and early speculators make money, but this is not even a sane gambling proposition.

The stock is more likely to fade until to those who were stuck it personifies all evanescent hopes of financial innocence. The worst of the process so far outlined is that it makes many a man think all mining stocks are frauds or that they are at least so risky that they should be wholly avoided. This mistake lies at the extreme opposite to unwarranted confidence.

In the next issue the second article of the series will take up mine development and mine exploitation with the opportunities these offer to speculator and investor.

## Copper Metal and Stocks Strong—Speculators Should Give Preference to Dividend Payers

**COPPER.**—Although copper prices show a somewhat reactionary tendency at the time of this writing, the main current is still toward higher levels. The better class of copper stocks as a body are holding up very satisfactorily on Stock Exchange quotation boards. It would seem that all unfavorable possibilities for these companies were discounted some months ago. Whatever change may occur from now on is expected to be of a constructive nature.

Lake Superior Mines have to a large extent returned to full time work, which means an addition of about 2,000,000 lbs. of copper to the local monthly output. Calumet & Hecla is understood to be asking 15½¢; electrolytic grades are obtainable at 14¾¢. The metal is not being pressed for sale, and the general understanding is that producers are largely

sold out. At the same time domestic consumption appears to be covered for momentary requirements while foreign buying is experiencing a lull. German buyers are said to have been in the American markets intending to store the metal for use upon the conclusion of peace, when the price is expected to reach materially higher levels.

**Spelter.**—The spelter market will remain abnormally strong as long as war munition orders, necessitating large quantities of brass, appear in this country.

**Lead.**—Lead production is undergoing drastic reduction both in the Missouri and the Coeur d'Alene mines. America's potential production of lead runs beyond home requirements.

**Goldfield.**—Among the precious metal

districts, Goldfield still holds the center of the stage. Indications point to a consolidation of various properties under Wingfield leadership. The joining of interests by Jumbo Extension, Goldfield Merger, Atlanta, Kewanas and Booth may overcome the difficulties which now retard the development of the camp, but small speculators should not allow them-

selves to be swayed by this project, which is at present merely a hope. Consolidation is possible and might result in large accretion of market quotations, but speculation on such uncertain basis is not advisable. Commitments should be made only in such stocks as have been paying dividends and show ability to continue that policy.

## Mining and Curb Digest

**Alaska Gold Mines Co.**—FIRST UNIT of new 6,000 ton mill has gone into commission. Additional units of 1,000 tons capacity will, it is expected, be placed in operation at 30 day intervals. Hence entire mill should run on or abt. Aug. 1.

**Allouez Mining Co.**—FINANCIAL POSITION best in its history. Working capital now abt. \$400,000. Co. will be able to produce 10,000,000 lbs. copper a yr. as soon as market conditions warrant. 9c. costs are counted on. This, on a 14c. metal market, would yield earnings of \$4 a share or better.

**Anaconda Copper Mining Co.**—OPERATION now on abt. 60% basis, as against 50% for last 5 mos. in 1914. A large body of ore of good grade is reported opened up in the West Colusa, one of its properties. Its Mountain View mine will probably resume operations this week. It has been closed since Aug. and is one of the Co.'s largest producers.

**Butte-Ballaklava.**—RESUMPTION of operations announced for some time this month. Initial hoisting to reach 100 tons a day. Shaft retimbering has been progressing and sinking below 1,600 ft. level to be begun as soon as situation warrants.

**Butte & Superior Copper Co.**—NET PROFITS greatly increased by high spelter market. Sept. quarter earnings equivalent to \$7 a share. Spelter during that period averaged 5.11c. but is now considerably higher. Co. has \$1,000,000 cash on hand. Tonnage will probably be increased within a month to 1,500 tons a day.

**Calumet & Arizona Mining Co.**—DIVIDEND of 50c. a share declared payable Mar. 22 to stock of record Mar. 5. Co. recently bought new group of copper claims, paying according to report, \$122,000 therefor.

**Calumet & Hecla.**—RESUMES DIVIDENDS, declaring \$5 a share, payable Mar. 18 to stock of record Feb. 18. Last previous div. amounting to \$5 was paid June 20, 1914. Competent analysis of assets estimates value of this stock at a considerably higher figure than present market quotations. Indicated returns on 13½c. copper are given at abt. \$6.67 a share a yr. for Cal. & Hecla's capital stock for the next 30 yrs. Co. is now operating 5 producing shafts on the Osceola formation. This lode is being mined to produce 14 lbs. copper to the ton.

**Chino Copper Co.**—REPORT for 4th quarter of 1914 shows net \$285,932, compared

with \$566,495 for prev. quarter. Deficit after divs. was \$149,000. Ore treated during 4th quar. contained 1.86% copper, comparing with 2.17% for 3rd quar.

**Consolidation Coal Co.**—BOND ISSUE APPROVED—Stockholders have approved issued of \$7,000,000 two-year 7% debenture bonds, principal and interest payable at maturity at the option of the company either in cash or stock, at par. Nothing developed at recent meeting bearing on the reports that John D. Rockefeller had acquired an interest in the Co. Net surplus after deducting all charges earned in year ended Dec. 31, was \$2,007,000. Co. sold during the year 10,710,000 tons of coal, a decrease of 447,000 compared with preceding year.

**Dome Lake.**—MINE SHIPPED \$5,000 gold brick, second for month.

**Eagle & Bluebell Mining Co.**—ORE BODY recently opened on 1700 ft. level has been developed for 270 ft. vertically, 50 ft. on strike and up to 26 ft. thick. Average contents said to be 40 ozs. silver and 40% lead, which would give an approximate gross value of \$45 a ton or better.

**Goldfield Cons. Mines Co.**—DECEMBER PRODUCTION gave a net of \$195,118. Connection with Merger Mines Co. suit:—See under Jumbo Extension.

**Goldfield Merger Mines Co.**—IN RECEIVER'S HANDS on application of a shareholder, who alleges that she was induced to take stock in the Co. on representation that former U. S. Senator Clark was interested in it. She further charged that officials of the Co. had purchased scarcely sufficient interest to obtain control and had sold the Jumbo mine to a subsidiary Co. owned by the defendants. See also under Jumbo Extension.

**Granby Cons. M. S. & P. Co.**—DIVIDEND RESUMPTION considered a strong possibility. Co. now operating ½ of its furnace capacity at Grand Forks, and 2 or 3 furnaces at Hidden Creek, with others being added from time to time. Operations at Hidden Creek have been profitable owing to high copper contents and good precious metal values of ore. Phoenix property running at 50% capacity and recovering only 80 lbs. copper per ton experiences difficulty in making expenses. When all properties are on full time, Co. is likely to reach 40,000,000 lbs. annual production.

**Greene Cananea Copper Co.**—TO RESUME operations at early date according to

report. Political uncertainty in Mexican republic, not poor copper market, said to be chiefly responsible for shutdown. Considerable preliminary work must be done before profitable operations can begin. Financial position considered strong. There has been no destruction of property.

**Guggenheim Exploration.**—PRESENT VALUE of securities held is \$42,079,378, as against book value of \$32,853,286. This holding Co.'s assets, figured at \$45,797,300, are considered nearly all "quick." Liabilities comprise \$20,793,300 of stock and \$32,000 unpaid taxes, leaving surplus of \$24,972,000.

**Hollinger Gold Mines Co.**—REPORT for 1914 yield shows 208,936 tons of ore, valued at \$2,688,355. Gross profits were \$1,786,680. Divs. total \$1,170,000. Ore reserves have an estimated gro. value of \$13,358,420, representing an increase over figures of preceding year of approximately \$2,000,000. Of a total of 54 veins located so far only 12 have been reached by underground workings.

**Inspiration Cons. Copper Co.**—ACQUISITION—Property of New Keystone Copper Co. taken over, payment consisting of 39,797 shares of Inspiration, which has been placed in the New Keystone treasury, injunction secured by minority stock holder of New Keystone who sought to prevent sale having been dismissed. It is understood that authority will be sought to wind up New Keystone Co. through special meeting of stockholders, in which event Inspiration shares will be distributed on basis of one for nine of New Keystone.

**Iron Blossom.**—AVAILABLE ORE SUPPLY reported increased by work during past yr. Cash on hand Jan. 1 was \$127,034.

**Jim Butler Mining Co.**—IMPROVEMENTS at Wandering Boy shaft completed and mining to begin at once.

**Jumbo Extension Mining Co.**—SUIT—An official has received the following telegram from A. H. Howe, Secy. of the Goldfield Cons., with reference to the suit brought against the Goldfield Merger: "I wish it to be stated emphatically that the sale of the Velvet claim on the part of the Merger Mines Co. was legal in every detail. The sale was ratified at a stockholders' meeting and every detail was strictly in accordance with the law. A showing will be made at the forthcoming hearing which will stop all further proceedings. Attorneys on both sides are now in conference at San Francisco. A temporary receiver is now in Goldfield, and states that he will not interfere with the operation of the Merger Mines Co. Jumbo Extension is not made a party to the suit in any way."

**Lower Mammoth Mining Co.**—GOOD ORE BODY running well in copper and silver reported opened on 600 ft. level. Work here will be resumed as soon as Co.'s water line from Cherry Creek is repaired.

**McIntyre.**—SINKING at No. 4 shaft almost completed to 600 ft. level, the deepest point reached at any part of the property. Development work being continued.

**Mammoth Copper Mng. Co.**—SHIPMENTS of high grade zinc-silver ores to Oklahoma at regular intervals arranged for. Sorting plant about completed. Large tonnage of ore said to average 26% zinc or better. Same metal also developed in recently purchased Friday-Lowden property.

**Mass. Cons.**—PHYSICAL CONDITION on Evergreen lode reported as most satisfactory. Opening on 11th level has proven remunerative.

**Miami Copper Co.**—INCREASED PRODUCTION and reduced costs expected from changes now being made in mill. As soon as copper market reaches firm basis divs. are considered strong possibility.

**New Keystone Copper Co.**—TAKEN OVER by Inspiration Cons. See under title of latter.

**Nevada Cons. Copper Co.**—PROFITS AFFECTED by low copper prices during Dec. quarter. Deficit for last 3 mos. 1914 was \$496,000 including \$117,051 charged to depreciation. Production was approximately 8,000,000 lbs. copper or abt. half amt. during same period in yr. previous. Cost was 8.42c per lb., due largely to fact that Nevada Northern Railway paid its usual div. which amount was credited to production results.

**Nevada Douglas Copper Co.**—REORGANIZATION in prospect. Special stockholders meeting called for Mar. 4 in Salt Lake City, to vote on consolidation with Moore Mining Co. New Co. to be capitalized at 1,000,000 shares par value \$5 each. Nevada Douglas stockholders to receive share for share in new stock. 10,000 shares being issued to Moore Co. for property. New stock will be assessable and assessment of 10c. a share apparently contemplated. Situation uninviting.

**Nipissing Mines Co.**—ORE RESERVES largest in history, aggregating more than ten million ozs. silver, development work during last 6 mos. of 1914 being responsible. Net profits for yr. ended Dec. 31 last given as \$1,600,000 notwithstanding low prevailing price of silver. Div. totalling \$1,200,000 were paid.

**North Butte Mining Co.**—BUYS LAND and water rights suitable for smelter site. Purchase comprises 1260 acres 20 miles west of Butte near two railway lines. Contract for ore treatment at Washoe smelter of Anaconda Co. still has some years to run.

**Ohio Copper Mining Co.**—REORGANIZATION reported likely but whether through foreclosure of mtg. or not is undetermined. A new committee has been formed and already represents \$200,000

bonds but will not antagonize original committee. Hope is expressed that by aid of new flotation process property can be operated at profit.

**Osceola Cons. Mining Co.—OPERATING** several of its shafts on full time.

**Pilot Butte Mining Co.—INCREASED OUTPUT** planned due to improvement in metal market. Zinc ore to be mined at rate of 50 tons a day. Shaft will be sunk 400 ft. deeper to 2850 ft. level. Feb. output estimated at 60 cars.

**Pittsburg Coal Co.—ACCRUED DIVIDENDS** amounting to 40% on pfd. reported likely to be paid. This will be attained according to understood plans through issue of new pfd. stock to shareholders at par. In addition pfd. stockholders would be asked to consent to reduction in cumulative div. rate from 7% to 6%. This would involve additional div. payments at 6% rate on increased amount of stock, or \$400,000 more than 7% requirement on present pfd. The whole proposal considered in some quarters as dubious.

**Porcupine Crown Mines.—REGULAR DIVIDENDS** of 3% quarterly will, it is understood, be continued for coming yr. Surplus to be built up. \$21,124 was carried forward. This is an increase of \$61,551.

**Ray Cons. Copper Co.—REPORT** for Dec. quarter shows production costs were 8.645c. a lb. Net surplus earnings after bond interest were \$174,945 comparing with \$420,922 earned prev. quarter. Operating conditions at mine and mill excellent, production can be increased whenever industrial and metal market conditions permit.

**M. Rumely Co.—RECEIVERS CERTIFICATES** in amt. of \$1,500,000 authorized by Federal Court. \$550,000 are for immediate sale. It is understood that work will be continued at plant, and business at branches throughout country is said to have satisfactory outlook.

**Stewart Mining Co.—USUAL DIVIDEND** 10c. a share quarterly declared payable Feb. 20. Co. began year 1915 with surplus of over \$750,000. On June 30, 1914, list stood at \$1,106,140. Extraordinary expenses in connection with litigation were largely responsible for the loss. These suits were in regard to apex rights on certain ore bodies contested by the Ontario Co. adjoining. One suit was carried to U. S. Supreme Court, another awaits decision in Idaho. Feb. earnings as well as those for Jan. were comparatively low owing to severe snowstorms which have made Idaho operations difficult.

**Shannon Copper Co.—RESUMPTION** planned immediately, but not at first in full. Mine conditions said to be the best for some time. Treasury reported to have abt. \$300,000 cash on hand.

**Shattuck-Arizona Copper Co.—REPORT** for yr. ended Dec. 31, 1914, shows net profit

of \$587,497. Dividends \$525,000; surplus \$62,497, against which was charged depreciation \$30,632, balance \$31,865. Balance Dec. 31, 1913, was \$598,151 making net surplus Dec. 31, 1914, \$630,015. Output was reduced 50% during Aug., Sept. and Oct. Since Oct. 23 shipments were discontinued to await more favorable conditions. Mine reported in good condition.

**Superior Copper Co.—SHIPPING** average grade of rock to Centennial-Allouez Mill. Co. has in past expended large portion of earnings on exploratory work; when proportion of actual production is increased and 1200 tons of rock a day are taken out profitable operation is considered certain.

**Tennessee Copper Co.—PRES. PHILIPS DENIES** report that he has sold interest, and declares that on contrary he has added several thousand shares to his holdings.

**Tonopah Belmont.—DECLINE** in market quotations due to rumors that directors at Feb. 24 meeting will omit action on div. It is reported that Co. will exercise option on Surf Inlet Mine in British Columbia July 1 expending \$150,000 in development work there.

**Tonopah Extension Mining Co.—FIRE PROTECTION SYSTEM** being installed.

**Tonopah Mining Co.—ACQUISITION** of interest in Dexter-White Caps property at Manhattan Nevada being negotiated. Latter property will be examined and if results are satisfactory, Tonopah Mining will take short-time option. Possession of Nicaragua-Panama Mine Co. property reported as acquired Jan. 28.

**U. S. Smelting, Ref. & Min. Co.—IMPROVEMENT** reported in operations at Mexican properties Real del Monte and Pachuch silver mines, which are now running at 60% of capacity as against 35% a few months ago. Co. produced approximately 800,000 tons of coal at Utah property during fiscal yr. ended Dec. 31. This was not as good as expected as under normal conditions a 30% increase over this figure had been planned.

**Utah Copper Co.—REPORT** for 4th quar. of 1914 shows production of 20,229,012 lbs. copper at net cost, after crediting miscellaneous income, of 6.688c. a lb. Net profit for quar. was \$1,076,074; divs. disbursed were \$1,218,367, resulting in a net deficit for quar. of \$142,294. Earnings were based on average price for copper of 11.236c. a lb. a figure somewhat lower than that actually reached. Taking the yr. as a whole, Co. in spite of 50% reduction during last 5 mos. and with metal market at very low level showed earnings of more than \$2,000,000 in excess of divs.

**Wolverine Copper Mining Co.—APRIL DIVIDEND** expected to be at least \$3. Treasury is strong but diminishing copper values in its ore have brought costs close to 9c. a lb.

## OIL REVIEW

### Oil Markets Demoralized—Pipe Line Conditions Unsatisfactory—Oklahoma Tries State Control

**T**HE oil situation is in turmoil. Demoralized markets are reported throughout the country; Chicago is said to possess no real market. Gasolene is selling at 11c. Pipe line earnings last year decreased 34.28 per cent., the Southern group suffering heavily. The principal reasons for the poor showing of the pipe line companies were: general depression in the oil industry, reduced tariffs, and cessation of exports due to the war. Depreciation charges of these companies showed a marked reduction as compared with the previous year when very liberal charges were made. The difference is, however due to some extent to a readjustment of accounting methods.

In Mexico the decree of a revolutionary leader made operations in a portion of the oil fields impracticable but England here compelled permission for oil exports for her navy. American workmen in these districts are again in danger. Development work here has naturally suffered a sharp decline, hostilities in the oil regions having begun as early as April, 1914. A number of American oil enterprises active in Latin American countries are taking out Canadian charters in order to obtain British protection.

Enormous overproduction in the U. S. is also accountable to some degree for the falling off in exploration for oil producers

throughout the world. In Canada the fields of Ontario and New Brunswick show a declining tendency and the wild-cattling which centred in Alberta and was also prosecuted with considerable zeal in Saskatchewan and British Columbia, developed no results of any moment.

Coastwise shipping along the Atlantic seaboard is introducing liquid fuel; the United Fruit Co. and the marine department of the Long Island Ry. taking the first steps. The outcome seems likely to be a general adoption of oil as fuel for coastwise shipping along the Atlantic as well as the Pacific coasts. The future of oil as fuel on our inland transportation systems, the railways in particular, is evidently wholly dependent upon market quotations. The Rock Island and Frisco systems, which had discontinued the use of fuel oil when its price began climbing to abnormal figures, have lately resumed the use of this fuel as the supply became abundant and cheap.

In Oklahoma a comprehensive oil conservation measure has just been signed by the Governor, becoming effective at once; the State Corporation Commission thereby obtains complete jurisdiction over the production and price of oil in Oklahoma, but this law is likely to be attacked as unconstitutional.

## Notes From the Oil Fields

**Anglo-American Oil Co.—GAINED** more than 50% in business since war started. Recent success apparently due to management's energetic efforts at outbreak of hostilities, gaining favor of British War Office. Hence Anglo-American is supplying a large part of the Allies' gasolene requirements in western theater of war. Sales of liquid fuel for British factory consumption also increased.

**Atlantic Refining Co.—DEFICIT** reported for 1914. Profits from operation given at \$940,741 as compared with \$3,734,232 in 1913, and \$4,953,952 in 1912. After providing for 5% div. paid in Dec. and amounting to \$250,000, and marking down value of inventories by \$1,932,143 on account of lower petroleum prices, the yr.'s deficit figures at \$1,241,402. Balance sheet, however, shows notes payable amounting to \$1,500,000 were liquidated, cash increased by \$440,000, accounts receivable increased over \$750,000, and accounts payable reduced by more than \$900,000. A div. of \$5 a share is declared, payable Mar. 15 to stock of record Feb. 20.

**Buckeye Pipe Line.—REPORT** for year ended Dec. 31 last shows net income \$2,417,157, a decrease of \$1,215,424. Divs. pd. \$2,800,000. Deficit after divs., \$382,843. A \$2 div. is payable Mar. 15 to stock of record Feb. 20.

**Crescent Pipe Line.—DIVIDEND** of 75c. a share, payable Mar. 15 to stock of record Feb. 20, which is same amt. as that pd. 3 mos. ago. Report for yr. ended Dec. 31 shows net income \$269,658, a decrease of \$101,236. Divs. pd., \$270,000. Balance from profit and loss, \$342, a decrease of \$10,552.

**Indiana Pipe Line.—REPORT FOR YR.** ended Dec. 31, 1914, shows net income \$1,268,792, equal to 25.37% on \$5,000,000 capital stock, and compares with \$1,770,972 net income in 1913. Surplus after divs., \$118,792, comparing with \$170,972 in 1913. Co. suffered from general depression; better showing due in part to reduction of divs. from 32% to 16%, annual basis.

**National Transit Co.—REPORT** for 1914 shows \$7,435,946 in net quick assets. This is an increase of more than \$500,900. Co.'s position better than at any time since dissolution of Standard Oil Cos.

**Southern Pipe Line Co.—BALANCE SHEET** for 1914 shows decrease of \$683,690 in "Other Investments," as compared with 1913. This is due to the fact that a number of the bonds and notes held matured during the yr. and is reflected in other accts. on the balance sheet. Co. drew on profit and loss for \$471,126 to meet div. payments, but cash surplus increased by \$195,242, and accts. receivable increased \$101,022.

# COTTON

## The Trend of Cotton Consumption

By C. T. REVERE

**P**RACTICALLY every argument in support of higher prices for cotton has had for its basis the reduction in the acreage to be planted in cotton this season. It seems to have been taken for granted that demand for consumption has been hopelessly minimized and that a reduction in future supply affords the only hope for a recovery to a normal price level.

This tendency is a natural result of the mental inertia of the average market operator who readily seizes upon the obvious because it relieves him from the task of individual research or thought. There are indications, however, that the consumption feature of the cotton situation may furnish some surprises for those who are expecting it to shrink to abnormally low proportions.

It might be well in passing to call attention to the amazing extent to which cotton is being substituted for wool as a result of the war. This instance is merely cited to show that, while war has paralyzed commerce and in some respects inflicted a crushing blow upon the cotton manufacturing industry, compensations are offered from quarters least expected.

If the destruction resulting from the waste of war keeps on at the present rate, it is by no means an improbability that the civil population of the world will be practically denied the use of wool except in the most expensive fabrics. The wear and tear on uniforms in the present campaign breaks all records. The work in the muddy trenches limits the life of uniforms to about four weeks.

As a matter of fact, the British Army Medical Corps has adopted regulations requiring a complete clothing outfit for each soldier on the firing line every four weeks. Theoretically a soldier's outfit, consisting of uniform, overcoat, underclothing, socks, mufflers and sweater, calls for about forty pounds of unscoured wool. The actual requirements are somewhat smaller, owing to the substitution of cotton for wool in the ordinary garment. At the same time it is hardly going too far to say that, if the ten million men on the firing line were to use woollen clothing for a full year at the present rate, it would require the product of one billion sheep. There are only about 635,000,000 sheep in the world.

During seven months of the year woollen clothing is an absolute necessity for the men on the firing line. During the other five months they can use khaki uniforms and only

occasionally will they need overcoats. Even this drain on the wool supply of the world practically eliminates it from consideration as apparel for non-combatants. The tremendous drain on wool supplies is evidenced by the sharp advances which have taken place recently. The American Woolen Co. only one week ago was forced to turn down a large part of an enormous order from the Russian Government, notwithstanding the fact that deliveries up to next July would have been acceptable. Wool in Germany now commands a price of \$1.75 per pound, a figure hitherto unheard of.

The destruction of the Belgian flax industry and the effect of the war upon the flax industry of other European countries point to an extremely limited use of linens for several years to come. In December Belgium exported no linen whatever to this country, although Belgium ordinarily produces a large quantity of the best linen known to commerce. The Russian flax crop last year was only 25 per cent. of normal. The supply from the British Islands is too small to be considered when it comes to the world's clothing requirements.

In spite of the fact that Lancashire has sent thousands of operatives to the war, the mills in Great Britain's greatest textile district are using cotton on an unprecedented scale. This is because the spindles are making coarser yarns which consume cotton at an abnormally high rate. The average count of yarn in Lancashire will run close to No. 40. The average count that is now being spun is probably well under No. 20. This nearly trebles the amount of cotton consumed per spindle so that even if less spindles are being operated the amount of cotton consumed should show an increase.

Another feature that is of vast importance is the change in women's styles to wider skirts. When the new styles went into effect a few years ago the influence on the consumption of cotton was decisive. Fine goods manufacturers felt the depression immediately. The reduction in the consumption of cotton throughout the world after the new styles became established has been estimated at one million bales annually. There is good reason, therefore, to believe that with a return to wider skirts the old rate of consumption will be restored.

Viewing the situation broadly, the prospects point to a larger use of cotton than would have been believed possible a few months ago.

## TRADERS' DEPARTMENT

**SPECULATION :** Operations wherein intelligent foresight is employed for the purpose of deriving a profit from price changes

### Intimate Talks on Stocks

By RICHARD D. WYCKOFF

**A**MONG the inquiries which we are receiving from subscribers I notice that a considerable number refer to the low-priced stocks, such as Central Leather, Chicago Great Western, Corn Products, Erie, Pittsburgh Coal, Rock Island, Rumely, etc.

Now there are various grades of low-priced stocks. Some are good, others are indifferent, and still others may be regarded as almost worthless. In fact they may be divided into four classes: (1) Dividend payers. (2) Prospective dividend payers. (3) Stocks with an indifferent future; that is, those which neither lean towards dividend prospects nor absolute worthlessness. (4) Those which may be regarded as worthless.

Without analyzing all the different stocks in these various classes, it would be unjust to say in just what class each of the low-priced stocks belongs; but in order to illustrate the idea, I may mention Central Leather as a type of the first class of low-priced stocks; American Can common as a type of the second class; Chicago Great Western common as a type of the third class, and Rock Island as a type of the fourth class.

When a stock like Central Leather emerges, after a long period of development, into the ranks of the dividend payers, it usually means that the management has overcome its financial and operating difficulties and that the way is clear for dividing some of the profits.

The years 1899 to 1901 were devoted to the consolidation of industrial enterprises into great combinations,

many of which were inadequately provided with working capital. Their earnings were sufficient, in the majority of cases, to carry along the preferred dividends, but the common capitalization represented hope in paper form, and cases are numerous where it has required ten or twelve years for the company's business to grow up to the point where this heavy burden of original capitalization has been overcome.

In a previous article I showed how this influence worked against the stockholders of U. S. Steel common, and how that issue would today be selling on a high plane and be paying liberal dividends were it not for the enormous original capitalization of future prospects.

Central Leather is a type of stock which has outgrown this handicap. American Can is one which promises to overcome it.

Great Western common follows an issue of preferred stock on which about  $2\frac{1}{2}$  per cent. is being earned. But the common is such a long way from dividends that the prospect may be regarded as remote. If the company can keep itself properly financed and gradually build up its property, there is no reason why it should ever slip into the worthless class.

Of Rock Island common nothing but a mere shell remains. As I write it is quoted at  $\frac{3}{4}$ , or \$75 for \$10,000 face value of stock. This is so near to the edge of the precipice that there is nothing to it; a mere gambler's counter is all that is represented.

As I have frequently pointed out, the attractive feature of low-priced issues

is that they very often, in a boom, advance to double or treble the prices at which they sold in a period of depression. This prospect is not very often held out to the buyer of a high-priced stock such as Canadian Pacific, Union Pacific, Lehigh Valley, etc. It is easier for a stock selling around 10 to advance to 20 than it would be for Canadian Pacific to advance from 160 to 320. But this desire to get a large "block" of stock (some people erroneously call it a block when it is only 10 shares) often leads inexperienced investors and traders to get into one of the candidates for the lowest class, and eventually find himself involved in a receivership.

In a future article, which I will try to prepare for an early issue, I will endeavor to present some reasons why certain low-priced stocks belong respectively in one of these four classes.

\* \* \*

#### SCALE OPERATIONS IN LOW-PRICED STOCKS.

**I**N a recent inquiry, one of our subscribers asked us to point out the stock selling below 40 which has the greatest fluctuations. It was his intention to buy on a one point scale down and sell each lot on  $1\frac{1}{4}$  points rally.

The great danger in an operation of this kind is that your stock may belong in class 4 or it may, during the period occupied by your scale operations, gradually slip from class 2 or 3 into class 4.

Suppose this plan had been started a year or two ago when the Rock Islands, Wabashes, Rumelys and other stocks of disappearing tendencies were selling at fairly respectable figures: the operator would be almost certainly involved in a loss at the present time.

There was a period when Rock Island was the most active low-priced stock on the list. The same is true of Erie and many others in this class. Yet in 1907 Erie came so close to a receivership that there was no fun in being a holder—much less a scale operator in it.

In starting a trading plan of this kind, one great objection is that it

commits you to the long side. Of course the operator can discontinue his purchases at any point, but if he does so, he cuts himself off from what may prove to be good opportunities.

Another objection is that he is apt to buy on margin; a method which is likely to place him in a position where he has bitten off more than he can chew. Scale buying in these low-priced stocks should be undertaken only on a paid-in-full basis. Following this idea, the purchase of 100 shares of stock at 20 and another 100 shares every point down to 10, would require some \$16,500—an amount not often provided by those who start such campaigns. On the other hand, if he did not provide for this, but entered the scheme on a marginal basis, a straight decline of 10 points would probably find him sold out for lack of proper protection.

It is easy to see the fine points of an undertaking such as described, but most traders do not take pains to look for the "outs." I have known people to work these scale plans successfully for a time, but at some stage they became financially embarrassed or needed hot applications at their pedal extremities.

Operators of large means make frequent use of this method, which is jocularly known as a "Cascaret"—it works while you sleep. But the man who tries it on a thin margin is not likely to sleep much, nor is the fellow who tries to buy outright with a limited capital. So while John D. Rockefeller and others who approach his class may follow this method to their ultimate profit, there have been times when their operations in a single stock required what would be a fortune to the ordinary man. They have also been badly hung up over a series of years in trying to do the very thing which the subscriber proposes.

Our advice to "little fellows," by which we mean anyone who rates at less than a million, is to go slow on these scale plans. You can always see the beginning, but you can seldom see the finish, and if you could, you might not enjoy the picture.

## Significance of Price Movements

By "KIM"

**T**HE graphic on opposite page emphasizes the necessity for close study of the component parts of the market if one is to choose the right stock for his speculative ventures. During the period from the slump of June 11, 1913, to just before the outbreak of the European war, one who had the trend of the market correct would have been bullish three times and bearish twice. By "the market" I mean the average of all the 328 listed stocks, of which the *Evening Sun's* average of 25 is a good example.

However, nothing but a consistent long position made money for anybody in Central Leather. Conversely the only chance for better than a scalping profit in N. Y. Central lay in holding to the short side. They were "out of line." The same was true of a good many other well-known stocks. It goes to show that getting the trend right is not all there is to making money in the market.

One must know what the principal stocks are doing. If you can watch the tape from ten to three and have a good memory, specially trained, you can keep these things in your head. If not, I don't see any way out of it except to keep some kind of a record and risk being called a "Chart Fiend."

Study of weekly price movements of representative issues is of value also in forecasting the trend for long moves. Analysis of each of 50 stocks in the average compiled by the *Times* shows that during this same period 52 per cent. "backed and filled." There was no decided drift one way or the other. It was what one writer aptly termed "a kind of a glorified trading market." The *Sun* average (see graphic) is representative of this movement.

The remaining 48 per cent. followed pretty closely either the course typified by movement of Central Leather or by that of N. Y. Central. Of course there were individual variations, more or less pronounced, but the movement of these two used as illustrations came pretty close to representing the action of all that did not move with the market.

50 STOCKS JULY 18, 1914.

(1) *Advancing*: CL, AGR, AF, BS, GE, P, PRS, SBPR, UT, WX. *Total 10 stocks, 20 per cent.*

(2) *Backing and Filling*: RG, U, US, C, AR, A, AO, ALO, B, CAN, E, GNR, GNO, HR, IL, IPPR, KSU, L, N, NP, PA, RBC, RU, SP, SR, VC. *Total 26 stocks, 52 per cent.*

(3) *Declining*: CEN, ATT, BO, CA, CO, G, K, LV, MP, NH, OW, S, ST, W. *Total 14 stocks, 28 per cent.*

So it stood with 52 per cent. inclusive, 28 per cent. dragging and 20 per cent. advancing; a balance of 8 per cent. on the down side. But the weak stocks were far more influential in their effect on sentiment than the strong ones. The advancing issues were nearly all specialties with light weight so far as influence goes. Those with a declining tendency were all prominent—many of them "secondary leaders."

Making allowance for this factor, the odds in favor of further decided movement downward seemed to be more properly 64-36 than 54-46. Sure enough the move came in the week ended July 30, 1914, which is not shown in the illustration.

Of course this looks like-hindsight. So let us see how they line up as this article goes to press:

50 STOCKS FEBRUARY 15, 1915.

(A) *Buoyant*: AO, AR, BS, CAN, CL, GNO, PO, RU, W. *Total 9 stocks, 18 per cent.*

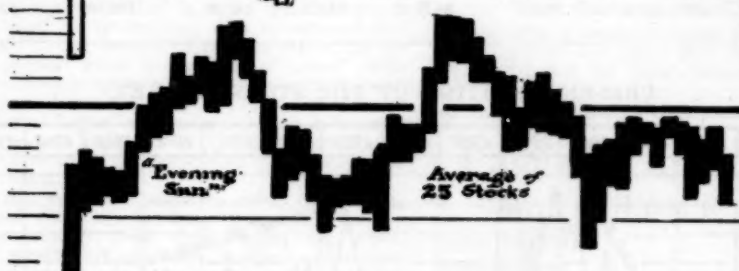
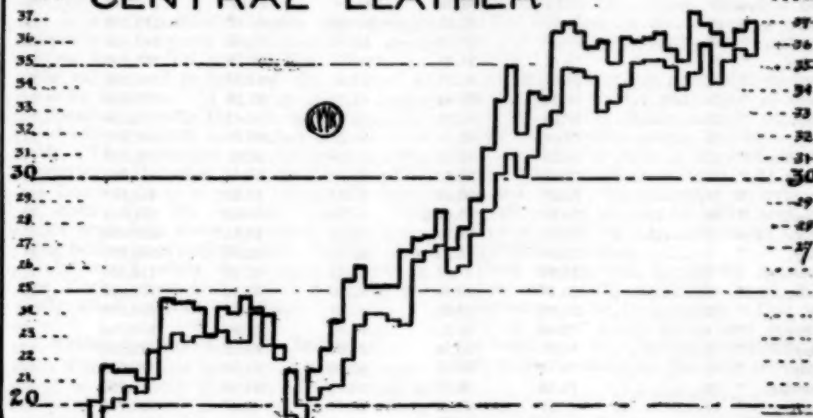
(B) *Normal*: A, AF, ATT, AGR, B, CEN, GE, HR, IPPR, NP, OW, S, U, UT. *Total 14 stocks, 28 per cent.*

(C) *Heavy*: ALO, BO, C, CA, CO, E, G, GNR, IL, K, KSU, L, LV, MP, N, NH, PA, PRS, RG, RBC, ST, SP, SR, SBPR, US, VC, WX. *Total 27 stocks, 54 per cent.*

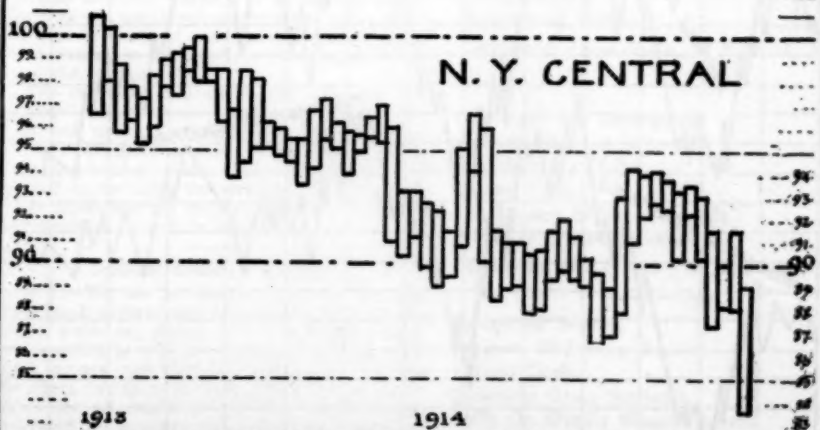
Numerically considered, the balance seems to point downward, odds 68-32. Reasoning solely from price movement it appears to me that we are to have a further decline in the whole market before the last corner is turned.

# A STUDY IN PRICE MOVEMENT

## CENTRAL LEATHER



## N. Y. CENTRAL



1913

1914

June July Aug Sept Oct Nov Dec Jan Feb Mar Apr May June July

## Market Statistics

|            |              | Dow Jones Averages |              | 50 Stocks |       | Total Sales | Breadth<br>(No. issues) |
|------------|--------------|--------------------|--------------|-----------|-------|-------------|-------------------------|
|            |              | 12 Industrials     | 20 Railroads | High      | Low   |             |                         |
| Monday,    | Jan. 18..... | 77.75              | 90.00        | 63.14     | 62.42 | 258,300     | 164                     |
| Tuesday,   | " 19.....    | 78.05              | 92.91        | 63.80     | 62.97 | 380,200     | 167                     |
| Wednesday, | " 20.....    | 78.03              | 93.18        | 63.98     | 63.16 | 305,600     | 152                     |
| Thursday,  | " 21.....    | 78.41              | 94.05        | 64.53     | 63.75 | 381,900     | 170                     |
| Friday,    | " 22.....    | 78.01              | 93.51        | 64.68     | 63.74 | 342,100     | 167                     |
| Saturday,  | " 23.....    | 78.00              | 93.46        | 63.92     | 63.58 | 127,500     | 127                     |
| Monday,    | " 25.....    | 77.73              | 93.23        | 63.93     | 63.45 | 171,100     | 137                     |
| Tuesday,   | " 26.....    | 78.09              | 93.70        | 64.05     | 63.68 | 147,200     | 129                     |
| Wednesday, | " 27.....    | 76.57              | 92.21        | 63.25     | 62.29 | 349,100     | 142                     |
| Thursday,  | " 28.....    | 76.60              | 92.52        | 63.14     | 62.36 | 283,600     | 137                     |
| Friday,    | " 29.....    | 75.50              | 90.80        | 62.93     | 61.59 | 433,500     | 137                     |
| Saturday,  | " 30.....    | 76.09              | 91.60        | 62.39     | 61.88 | 121,600     | 105                     |
| Monday,    | Feb. 1.....  | 76.54              | 91.91        | 62.64     | 61.82 | 287,400     | 100                     |
| Tuesday,   | " 2.....     | 76.40              | 91.52        | 62.72     | 62.33 | 200,700     | 111                     |
| Wednesday, | " 3.....     | 75.94              | 91.21        | 62.38     | 62.00 | 152,400     | 106                     |
| Thursday,  | " 4.....     | 75.59              | 90.89        | 62.42     | 61.92 | 202,900     | 134                     |
| Friday,    | " 5.....     | 74.98              | 90.09        | 61.97     | 61.26 | 324,100     | 127                     |
| Saturday,  | " 6.....     | 75.50              | 90.11        | 61.64     | 61.26 | 109,700     | 92                      |
| Monday,    | " 8.....     | 76.08              | 90.38        | 62.08     | 61.58 | 212,900     | 122                     |
| Tuesday,   | " 9.....     | 76.16              | 89.81        | 62.25     | 61.51 | 249,100     | 134                     |
| Wednesday, | " 10.....    | 76.58              | 90.22        | 61.99     | 61.44 | 255,800     | 120                     |
| Thursday,  | " 11.....    | 77.51              | 90.92        | 62.78     | 62.07 | 351,700     | 152                     |
| Saturday,  | " 13.....    | 76.90              | 90.28        | 62.52     | 61.97 | 138,100     | 121                     |

## PRESENT POSITION OF THE STOCK MARKET.



## Technical and Miscellaneous Inquiries

### Stocks in London and New York.

Is it possible to state how daily volume of trading in bonds and stocks in London compares with such volumes in New York?—T. D.

It is not possible to make any definite comparison between the volume of stock trading in London and in New York, because no record is kept of the volume of sales in London. It is true that a larger proportion of securities are listed, as compared with unlisted, in London than in New York. The principal reason why trading is heavier in London than in New York is that London is to a great extent the clearing house for the world's capital. The stocks traded in there represent companies doing business practically all over the commercial world, while the stocks traded in New York, whether listed or unlisted, are nearly all American securities.

### Trend Letter—Bargain Indicator.

P.—The stop loss method of trading mentioned in "Fourteen Methods of Operating in the Stock Market," is a good method when properly used—that is, when good judgment is used in the trading. We recommend that our "Trend Letter" subscribers follow the instructions given in the "Trend Letter" without attempting to combine other methods with them. However, many of our clients take the "Trend Letter" simply to aid them in forming their own judgment as to market conditions. In such cases, of course, they follow their own methods.

We expect to continue using Copper, St. Paul, Smelting, Reading, Union and Steel as the principal basis for judging the trend. However, this of course does not prevent us from giving advice in regard to the purchase or sale of other issues. It is entirely possible that we might substitute some other stock for one or more of these leaders should there be a change in the market which would seem to make it desirable.

The earnings as given in our "Bargain Indicator" refer to the stocks named therein. You will notice that we always mention common or preferred in cases where there is more than one kind of stock. When the common is quoted in the table, its earnings are calculated after deducting the regular dividend to which the preferred stock is entitled.

### Federal Reserve System.

J. P.—We see no reason to think that the new bank system will seriously affect the income yield on stocks. It is uncertain how much effect it will have on rates for call and time money and commercial paper. So far its effect has all been in the direction of lower rates for all forms of credit. The law was intended to prevent extremely high rates for money, to divert money to some extent from the New York call market to commercial paper. It is difficult to say whether this expectation will be realized, but if so, we think

that the effect on call money rates will be comparatively small.

In regard to tight money at crop moving time in fall, the law is intended to prevent this. It is probable that money rates will be higher in the fall than in the winter as a rule, but the law should prevent any real stringency in money.

We do not see any advantage in keeping a record of the weekly statements of the twelve Federal Reserve Banks at the present time. After the reserve system has been in operation for several years it may be desirable to make diagrams of these rates. At present we do not have the information over a long enough period of time to make such graphics of value, and the new system is still in its preliminary stages.

Bank acceptances as quoted in the newspapers are pretty much the same thing for your purposes as time money. This term refers to notes which have been indorsed by the bank and thus become practically equivalent to loans made by the bank direct.

### From Darkness Into Light.

Have been a constant reader of your valuable magazine for years and can truthfully say it has led me from darkness into the light.—R. C.

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